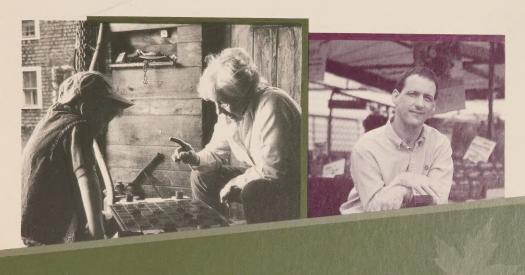


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Publications



Annual Report of the Canada



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Produced by Human Resources Development Canada's Income Security Programs Communications Unit

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If you require additional copies of this annual report, please contact:

Public Enquiries Centre Human Resources Development Canada 140 Promenade du Portage Hull, QC K1A 0J9

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Aussi disponible en français sous le titre Rapport annuel du Régime de pensions du Canada 1996-1997 Minister of Human Resources Development



Ministre du Développement des ressources humaines

Ottawa, Canada K1A 0J9

His Excellency
The Govenor General of Canada

May it please your Excellency:

I have the pleasure to submit the Annual Report of the Canada Pension Plan for the fiscal year 1996—1997.

Respectfully submitted,

Pierre S. Pettigrew



Foreword to the CPP Annual Report:

This is the last annual report on the CPP prior to enactment of Bill C-2 by Parliament on December 18, 1997.

As a result of Bill C-2, annual reports will be expanded to provide more information, particularly with respect to how administrative problems are being addressed.

On January 1, 1998, amendments to the CPP Act dealing with contribution rates and benefits and their administration came into force. Provisions relating to the CPP Investment Board Act come into effect on April 1, 1998.

February, 1998

Table of Contents

About the Canada Pension Plan
Departmental Responsibilities
Special Initiatives
Departmental Reports for the Year
• Human Resources Development Canada
• Public Works and Government Services Canada
• Revenue Canada
• Department of Finance
• Office of the Superintendent of Financial Institutions
Disability Initiatives
The Canada Pension Plan Account
The Canada Pension Plan Account and the Canada Pension Plan
Investment Fund Financial Statements – March 31, 1997
Annual Report of the Canada Pension Plan Advisory Board

This Report on the Canada Pension Plan (CPP) consolidates input from all departments providing services on behalf of the Plan. The intent is to provide a more meaningful presentation of the business of managing the CPP.



About the Canada Pension Plan

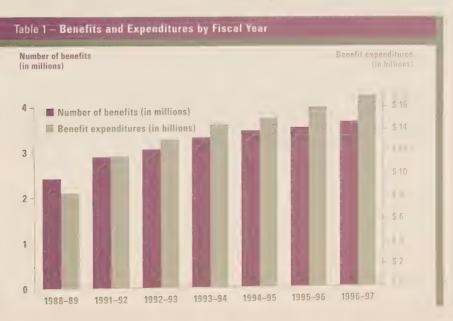
A Measure of Income Protection

The Canada Pension Plan, which began in 1966, provides benefits to contributors and their families. The CPP covers employed and self-employed persons between the ages of 18 and 70 who have a minimum level of earnings in a calendar year. The Plan operates in every province and territory, except Quebec, which operates a similar pension program, the Quebec Pension Plan. The benefits and provisions under the Plan include retirement pensions, disability, survivor and death benefits and services under the CPP National Vocational Rehabilitation Project. Benefits are increased each year in January to reflect increases in the average cost of living, as measured by the Consumer Price Index.

The CPP is self-supporting and is a separate fund from general revenue in the Accounts of Canada. It is financed through mandatory contributions from employees, employers and self-employed persons, as well as through earnings on the investments of the Canada Pension Plan Investment Fund. Changes to the legislation governing the general level of benefits, the rate of contributions, or the investment policy require an Act of Parliament and the agreement of at least two-thirds of the provinces having not less than two-thirds of the population. In addition, changes of this kind require two years' notice before coming into force unless such notice is waived by the provinces.

Benefits

Over 3.3 million people received 3.6 million benefits totalling approximately \$16.7 billion during the fiscal year 1996-97.



Contributions

Contributions to the Plan are compulsory and are based on employee earnings exceeding the Year's Basic Exemption (YBE) up to a ceiling known as the Year's Maximum Pensionable Earnings (YMPE). The YMPE is linked to the average Canadian wage. Both the YBE and the YMPE are adjusted annually. The YBE remained at \$3,500 in 1996 and in 1997; the YMPE increased from \$35,400 to \$35,800 in the same period. Contributions cannot be made after age 70, after a contributor begins to receive a CPP retirement pension or while an individual is receiving a CPP disability benefit.

From 1966 to 1986, the contribution rate was 1.8% each for employees and employers with the self-employed paying 3.6% of their earnings subject to the yearly maximum amounts. The contribution rate began to increase in 1987 with a combined employee-employer increase of 0.2% for 1987 to 1991 and again for 1992 to 1996. The current rates in 1997 are 2.925% for employees, 2.925% for employers

with the self-employed paying 5.85%. The legislation that came into effect January 1, 1998 increased the combined 1997 contribution rate to 3.0%.

Contributors paid about \$11.4 billion into the Plan during 1996-97. As of March 31, 1997, the Canada Pension Plan Account held approximately \$37.8 billion. Contributions are collected by Revenue Canada on behalf of the CPP.

Retirement Pension

Eligibility

- Following the contributor's 60th birthday
- If under age 65, the month after the contributor has completely or substantially stopped working

Benefit Rates

- Based on the individual's contributions paid into the Plan
- Benefits actuarially adjusted by 0.5% for each month the contributor is over or under 65 at the commencement of the pension
- Maximum adjustment is 30%

Table 2 – I	Maximum and Ave	erage Retirement	Pension Amounts	Payable
Age benefit begins	Maximum amount payable 1996	Maximum amount payable 1997	Average amount paid March 1996	Average amount paid March 1997
Age 65	\$727.08	\$736.81	\$416.75	\$417.79
All ages			\$396.61	\$400.21

Retirement Pension – Facts and Figures

Retirement pensions represent 66% of the volume of total benefits processed and 67% of the dollar benefit amount paid out by the CPP.

Table 4 illustrates that the percentage of new retirement beneficiaries choosing to receive their benefits before age 65 has increased over the last few years and stands at 63% for 1996.

Assignment of Retirement Pensions

In certain circumstances, spouses in a continuing marriage or common-law relationship can receive an equal share of the retirement pension earned by both parties during their life together. Both must be at least 60 and have applied for their retirement pensions.

ear ending larch 31	Number of benefits (in thousands)	Number of new benefits	Benefit expenditures (in billions)
992–93	2,047	171,110	\$8.706
993-94	2,141	176,308	\$9.322
994–95	2,231	178,094	\$9.912
99596	2,321	180,998	\$10.531
1996–97	2,404	175,706	\$11.200

New Retireme as a percenta	nt Beneficiarie ige of new ben	es Electing Ea eficiaries)	rly Benefits	
Age 60	Age 61–65	Total <65	At ago 6%	165
30	29	59	37	
31	29	60	35	5
32	29	61	34	
34	29	63	32	5
35	26	61	34	5
37	26	63	32	5
	as a percental Age 60 30 31 32 34 35	as a percentage of new ben Age 60 Age 61–65 30 29 31 29 32 29 34 29 35 26	As a percentage of new beneficiaries) Age 60 Age 61-65 Total <65 30 29 59 31 29 60 32 29 61 34 29 63 35 26 61	Age 60 Age 61–65 Total <65 J 50 30 29 59 37 31 29 60 35 32 29 61 34 34 29 63 32 35 26 61 34

Disability Benefits

Eligibility

Disability

- To qualify contributors must
 - be disabled according to
 CPP legislation and
 - be between the ages of 18 and 65 and
 - meet minimum contributory requirements

Children's

- Paid on behalf of the dependent children of the disabled beneficiary if
 - children are less than age 18 or
 - between 18 and 25 and in full-time attendance at school or university

Benefit Rates

Disability

- Consists of a flat-rate amount and an amount based on the level of contributions of the applicant
- At age 65, a disability benefit is automatically converted to a retirement pension

Children's

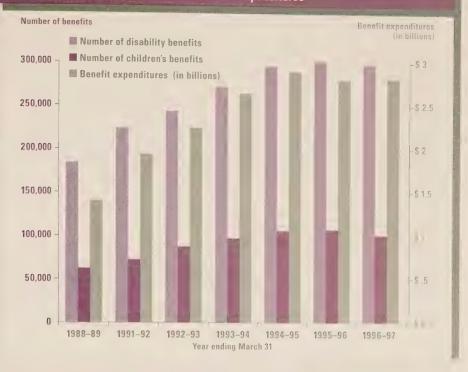
- Flat-rate monthly benefit paid on behalf of the dependent children of the disabled contributor
- Children may receive a maximum of two disabled contributors' benefits

A contributor is considered disabled under the CPP when the physical or mental condition is both severe and prolonged. "Severe" means that the person is prevented from working regularly at any job. "Prolonged" means that the condition is long term or may result in death.

The maximum and average amounts payable for 1996 and 1997 are presented in table 5.

Table 5 – N	Maximum and Ave	erage Disability B	lenefits Amounts	Payable
Type of disability benefit	Maximum amount payable 1996	Maximum amount payable 1997	Average amount paid March 1996	Average amount paid March 1997
Disability	\$870.92	\$883.10	\$656.95	\$664.16
Children's (flat-rate)	\$164.17	\$166.63	_	-

Table 6 - Disability Benefits Volume and Expenditures



Disability Benefits - Facts and Figures

Disability benefits represent 11% of the volume of total benefits processed and 16% of the dollar benefit amount paid out by the CPP.

Survivor Benefits

Eligibility

Survivor

- The deceased must have made a minimum amount of contributions to the CPP
- The common-law or legal spouse of the deceased contributor may be eligible for a survivor pension
- In determining eligibility and the rate of payment, factors considered are
 - age of the surviving spouse
 - whether or not the spouse is disabled
 - whether or not the spouse has dependent children of the deceased contributor.

Children of deceased contributor

- The natural, adopted, or child in the care and control of the deceased contributor, at the time of death, may be eligible for the children's benefit if
 - less than age 18 or
 - between 18 and 25 and in school full-time

Death

 Paid to the deceased contributor's estate or the person responsible for the funeral expenses

Benefit Rates

Survivor

- Only one survivor's pension payable to the surviving spouse
- If widowed more than once, the larger of the two entitlements is paid

Children of deceased contributor

- Flat-rate monthly benefit paid to the dependent children of the deceased contributor
- Child must attend school or university to continue to receive the benefit to a maximum age of 25

Death

 Lump-sum payment equal to six months' worth of the deceased contributor's "calculated" retirement pension, up to a set maximum for the year of death

Table 7 – Maximum and Average Survivor Benefits Amounts Payable					
Type of Survivor benefit	Maximum amount payable 1996	Maximum amount payable 1997	Average amount paid March 1996	Average amount paid March 1997	
Spouse <65	\$399.70	\$405.25	\$310.58	\$317.76	
Spouse >65	\$436.25	\$442.09	\$245.78	\$253.00	
Children (flat rate)	\$164.17	\$166.63	_	-	
Death	\$3,540.00	\$3,580.00	\$2,567.77	\$2,611.45	

Survivor and Children's Benefits – Facts and Figures

Survivor benefits represent 23% of the volume of total benefits processed and 16% of the dollar benefit amount paid out by the CPP.

Death Benefits - Facts and Figures

Death benefits represent less than one percent of the volume of total benefits processed and of the dollar benefit amount paid out by the CPP.

Table 8 - Survivor and Children's Benefits Volume and Expenditures

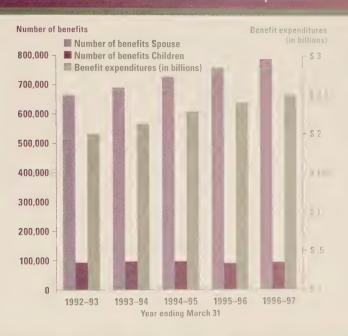
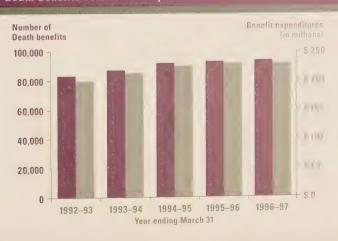
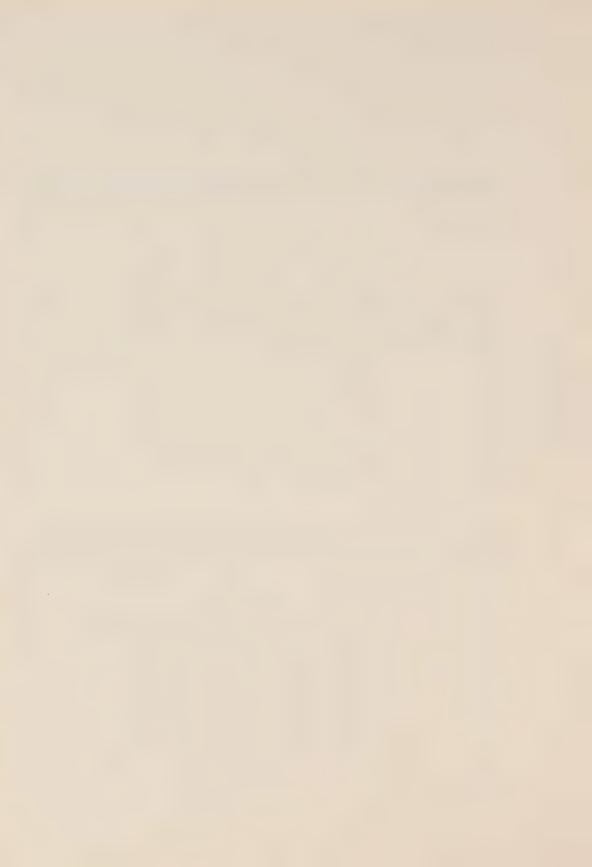


Table 9 - Death Benefits Volume and Expenditures





Departmental Responsibilities

Human Resources Development Canada

- provides clients with information, advice and counselling about CPP
- determines eligibility for benefits
- maintains records and accounts with supporting systems
- provides contributors with information on their earnings, contributions and projected benefits
- manages an appeals process on benefit eligibility, which includes support to the Review Tribunal and Pension Appeals Board
- assigns social insurance numbers to individuals and maintains the Central Index of those numbers
- negotiates and administers International Social Security Agreements
- detects overpayments and manages accounts receivable

Revenue Canada

- administers Part I of the CPP, which provides for the collection of contributions from employees, employers and the self-employed
- provides rulings regarding CPP coverage and contribution requirements
- provides contributor information to the CPP
- reconciles T-4s and investigates any discrepancies
- maintains records for remittances, assessments and deposits funds
- manages an appeals process on contribution related matters
- provides system and administrative support

Public Works and Government Services Canada

- issues payment instruments to CPP clients
- develops, maintains and operates supporting information systems to process information on contributor earnings, benefit payments, and program statistics
- provides accommodation and property management

Department of Finance

- is responsible for leading negotiations with the provinces and all other aspects of the statutory review of the CPP, which result in major changes to the Plan, including contribution rates
- manages the CPP Investment Fund by investing monies not immediately needed to pay benefits in securities of provincial and territorial governments, provincial Crown agencies, or the Government of Canada, in accordance with the provisions of the CPP
- in the future, excess CPP funds will be managed by the CPP Investment Board

Office of the Superintendent of Financial Institutions

The Chief Actuary

- prepares the actuarial reports for tabling in Parliament on the projected financial status of the CPP Account in accordance with the intervals stated in the CPP:
 - examinations every three years of the operation of the Act and state of the CPP Account
 - examinations every five years in connection with the federal/ provincial reviews

- prepares actuarial estimates on proposed changes to the Plan's provisions for HRDC or the Department of Finance
- calculates the effects on the CPP
 Account of proposed amendments to the
 CPP once a Bill has been introduced,
 in accordance with a request received
 from the Minister of Finance

Special Initiatives

A number of initiatives now underway will impact on the future direction of the CPP program or in the way benefits are delivered. The most important of these – the Income Security Programs Redesign and the proposed changes to the CPP – are discussed below.

Income Security Programs (ISP) Redesign

The major challenge facing ISP and the CPP is managing the multi-year Major Crown Project, ISP Redesign.

This is a significant part of ISP's efforts to continuously improve service to our clients within the departmental Client Service Delivery Network (CSDN). The project, still in its implementation phase which began in 1994, started in response to an expected 41% increase in demand for services over the next 15 years.

Key Objectives of CSDN

- improve client services
- enhance the security and accuracy of information
- provide greater service delivery flexibility and responsiveness
- increase operational efficiency

The Redesign Project will improve the operating effectiveness and efficiency of the CPP by reducing program delivery costs, improving the timeliness and accuracy of payments and improving client service.

Project Accomplishments to Date

- more efficient client service, shorter processing times and better access in mail, telephone and in-person services
- regionalization of CPP client services to offices across the country, bringing service closer to our clients
- better managed telephones with over 95% of all callers answered in contrast to the 50% average in 1994
- implemented e-mail system for ISP staff, allowing for better communication with the rest of the department
- work continuing with federal and provincial partners to ensure that Redesign changes can be meshed with current and future systems
- design and development of the Rules Base which standardizes and automates rules, policies and program calculation logic, developed over the past 35 years
- the installation of more than 2000 computers and all the behind the scenes hardware that is needed to run the equipment in more than 120 HRDC offices across the country
- the clean-up of client biographic data on our systems resulting in significant savings

A number of external events such as changes to the CPP, the Guaranteed Income Supplement (GIS) date change, proposals for a Seniors Benefit and proposed tax measures continue to have an impact on the project. There have also been some technical challenges such as the anticipated impact on systems of the year 2000.

Through the Redesign project and other initiatives, ISP is continuously improving service to our clients.

*Proposed Changes to the Canada Pension Plan

During 1996, as part of the regular five-year review of the CPP, federal, provincial and territorial ministers discussed future directions for the plan. The review included public consultations on the CPP held across the country in the spring of 1996. As a result, in February 1997, the Minister of Finance announced draft legislation on proposed changes to the CPP to secure its future. The changes are supported by eight provinces and the Northwest Territories.

*Proposed changes to the CPP were contained in Bill C-2 which was enacted by Parliament on December 18, 1997.

On January 1, 1998, amendments regarding contribution rates and benefits and their administration came into force. Provisions relating to the CPP Investment Board Act come into effect on April 1, 1998.

Some important features of the CPP remain the same.

- Anyone over 65 as of December 31, 1997 will not be affected by the proposed changes for future retirement pensions. Similarly, CPP retirement pensions, disability benefits, survivor benefits or combined benefits in pay as of December 31, 1997 are not affected.
- All CPP benefits, except the death benefit, will remain fully indexed to inflation
- The ages of retirement early, normal or late remain unchanged.

The most important proposed changes are as follows:

Fuller Funding

- The CPP will move from pay-as-yougo financing to fuller funding to build a much larger reserve fund. It will grow in value from about two years of benefits currently, to about four or five years of benefits.
- Contribution rates will rise over the next six years to 9.9 per cent of contributory earnings and then remain steady, instead of eventually rising to 14.2 per cent as projected.
- The year's basic exemption the first \$3,500 of earnings on which no contributions are paid – will be maintained and frozen

A New Investment Policy

• The reserve fund that will build up will be prudently invested in a diversified portfolio of securities, at arm's length from governments, to get higher returns. This will help pay for benefits for future generations.

Changes to Benefits and Their Administration

- The formula for adjusting previous earnings in calculating retirement pensions will be based on the average of maximum pensionable earnings in the last five years instead of the last three. The amount of the pension will continue to depend on how much and for how long a person contributes to the plan.
- Administration of disability benefits will be improved. To be eligible for disability benefits, workers who become disabled on or after January 1, 1998, must have made contributions in four of the last six years. Retirement pensions for disability beneficiaries will be based on maximum pensionable earnings at the time the disability occurs, and then indexed to age 65 by prices.

- Rules for combining survivor and disability benefits, and survivor and retirement benefits, will be changed.
- The death benefit will be equal to six months of retirements benefits, up to a maximum of \$2,500.

Stewardship and Accountability

- Canadians will receive annual reports on their CPP pensions as soon as possible.
- Federal-provincial reviews will be required every three years, rather than every five years.

These proposed changes to the CPP are designed to preserve the plan, strengthen its financing, improve its investment practices, and reduce costs. It is anticipated that they will come into effect in 1998 once legislation has been passed by Parliament and Orders-In-Council have been approved by two-thirds of the provinces representing two-thirds of the population.



Departmental Reports for the Year

Human Resources Development Canada

Human Resources Development Canada (HRDC) delivers the Canada Pension Plan to Canadians through a cross-country network of over 300 points of service. The cost of administration of these services was about \$143 million in 1996-97.

Meeting Canadians' Day-to-Day Needs

HRDC provides Canadians with information about the CPP programs, maintains records and accounts on clients and contributors, determines benefit entitlement and continuing eligibility and manages appeals and program integrity.

The Department's Social Insurance Registry assigns social insurance numbers to individuals and maintains the register of those numbers.

HRDC also negotiates and administers Social Security Agreements for clients living outside Canada and for new Canadians.

Serving Our Clients

The HRDC delivery network offers clients a choice of how they can do business with the department. Our services are offered through in-person service, by telephone and by mail. Information on benefits is also available through the Internet and at self-service electronic kiosks located at convenient sites across the country. Services are coordinated and supported by regional offices in each province and by national headquarters.

As illustrated in table 10, the department's efforts to encourage clients to do their business by telephone is having the desired effect. The aim is to level out the workload through improved scheduling and to reduce client waiting times. As a result, there has been a significant decline in the number of clients served in person with a corresponding increase in clients served by telephone.

Table 10 – Number of Interviews at Client Centres						
Interviews, by type of benefit	1994–95 Actual	1995–96 Actual	Action!			
Pre-entitlement	154,884	122,677	71,445			
Retirement	75,422	70,300	42,867			
Survivor	58,412	52,114	31,436			
Disability	71,461	46,494	28,578			
Subtotal	360,179	291,585	174,326			
Others: Credit Splitting Assignment Contributor Services Appeals Processing	21,656 .	17,677	11,431			
Application Processing	41,128	36,012	20,005			
Account Maintenance	157,133	134,273	80,018			
Total	580,095	479,547	285,780			

Table 11 illustrates the number of telephone calls handled at the Phone Centres.

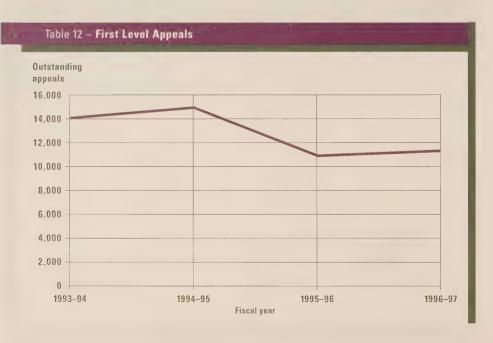
Table 11 – Number of telephone calls to Phone Centres					
Telephone Calls, by type	1994–95	1995-96	1996-97		
Pre-entitlement	649,051	638,888	820,130		
Application Processing	270,236	297,464	384,436		
Account Maintenance	904,239	931,893	1,204,566		
Contributor Services	86,253	121,768	153,774		
Total Telephone Calls	1,909,779	1,990,013	2,562,906		

Appealing a Decision

Individuals who are dissatisfied with a decision made on an application for CPP benefits have three opportunities to request a review of the decision. Close to 93% of all requests for reviews concern applications for disability benefits.

First Level Appeals are requests to the Minister for a "reconsideration" of a decision concerning a benefit or a division of pension credits. A request must be made to the Minister within 90 days of receiving the decision. A review of the file is then carried out by an adjudicator who was not involved in the initial decision.

Despite a decline in the number of disability applications in 1996-97, the number of reconsiderations remained fairly constant, as displayed in table 12. This was most likely due to the increase in initial denials from 60% in 1995-96 to 67% in 1996-97. In the same period, the number of denials on reconsideration also rose slightly from 71% to 77%.



To better understand the reasons for requesting a reconsideration, the CPP Appellant Profile Review was carried out in 1996-97. It is expected that the results, to be available in 1997-98, will help to identify ways to manage the appeal rate and to improve information provided to clients on the appeal process.

Second Level Appeals, or hearings by a Review Tribunal, are available to individuals dissatisfied with decisions rendered at the reconsideration level. A Review Tribunal is an independent body that acts on behalf of the Minister, the appellant or any other party to an appeal. Each Review Tribunal consists of three qualified persons selected by the Commissioner of Review Tribunals from a panel of 100 to 300 members. The chairperson is always a member of the legal profession. If a disability benefit is involved, as in over 95% of

the cases heard, at least one of the other members is a health care professional. Hearings are informal, closed to the public and usually held in or near the appellant's community. Table 14 provides an overview of the workload of Review Tribunals by fiscal year ending March 31.

Only 6,400 hearings of the expected 8,000 hearings for 1996-97 were held. This is largely attributable to the shortage of Panel Members.

The 6,100 cases outstanding at the end of 1996-97 represent some six months of appeals. As of March 31, 1997, over 1,100 of the 6,000 appellants had been contacted and hearings arranged for April 1997 and onwards. A significant number of cases have been delayed at the request of appellants or their representatives. It is expected that, in 1997-98, there will be some 13,000 appeals to Review Tribunals.

	1994–95	1995–96 April-Sept	1995–96 Oct-March	1996-91
the control of the second of the second of the second	Paratitus.	April-oopt	oct-mulon	
Benefit granted	9,893	3,654	2,257	5,496
Benefit denied	9,500	7,025	7,802	18,826
Percentage of benefits	51%	35%	22%	23%

	1994–95 (Actual)	1995–96 (Actual)	1996–97 (Actual)	
the state of the total and the state of the	and the second second	_	_	year
Cases for tribunal hearings	4,234	7,733	12,269	58.2
Appeals allowed	520	769	1,385	
Appeals dismissed	1,859	2,715	4,744	
 Hearings adjourned 	94	122	265	
Total hearings held	2,473	3,606	6,394	77.5
Cases outstanding at year end	1,834	4.249	6,095	43.6

Third Level Appeals are heard by the Pension Appeals Board (PAB), consisting of judges appointed by Orderin-Council. Board decisions are binding, and may be subject to judicial review by the Federal Court.

The increasing number of appeals at the first and second levels is having a significant impact on the caseload and backlog of unheard cases. Additional medical advisors have been hired and temporary members have been appointed based on the provisions of Bill C-54. In spite of these efforts, the cases pending at March 31 have almost doubled since the previous year.

Keeping Track of Contributions

As of the end of 1996, the number of CPP contributors, for whom a record of earnings account is maintained, rose to 22.7 million from 22.1 million at the end of 1995. The account information, which is recorded against an individual's social insurance number, is used to determine eligibility and to calculate the value of pensions to be paid.

In an effort to promote awareness and understanding of Canadians' rights and obligations under the CPP, personalized statements of earnings and contributions are mailed to all CPP contributors on a regular basis. The statements provide a

snapshot of the earnings and contributions credited to contributors' accounts, and an estimate of the benefits payable as of the date of the statement.

During 1996-97, more than 795,000 statements were sent to contributors between the ages of 40 and 44. In 1997-98, 1.7 million statements will be mailed to contributors 35 to 39 years of age, and 60 to 70 years of age. These personalized statements afford every contributor the opportunity to ensure that their record of earnings is correct.

The department also provides an active outreach service at consumer shows and trade fairs across the country. Visitors to these shows may receive information on the CPP including an on-the-spot personal statement of earnings and contributions. In 1996-97, approximately 4,400 individuals took the opportunity to talk to a CPP representative and more than 2,500 received a copy of their statement of earnings and contributions.

Ensuring Accurate Records of Earnings

Special files are maintained to record earnings and contributions data that cannot be credited to any contributor's account because of incomplete or incorrect information. Through the continuing partnership with Revenue Canada, the Québec Pension Plan (QPP), Revenu

Table 15 – Pension Appeals Board, Third-level Appeals					
Description	1994–95 Actual	1995–96 Actual	1996–97 Actual		
Workload – April 1st	377	589	1086		
Incoming workload	727	1106	1790		
Decision rendered	515	609	792		
Cases pending at year end	589	1086	2084		

Québec and the department's Social Insurance Registry, the number of unidentified records was reduced in 1996 to 3.7 million records representing \$93.2 million in contributions. This was a significant reduction from the 4.2 million unidentified records representing \$120 million at the end of 1995.

By identifying records with previously invalid social insurance numbers and surnames alone, more than 141,000 entries were credited to 90,000 accounts, resulting in an average retroactive payment of \$344.99 for 50,000 clients currently in receipt of a CPP benefit.

Also in partnership with Revenue Canada, it was possible to reduce the unidentified self-employment entries from 90,000 at the end of 1994 to 48,300 at the end of 1996.

The Social Insurance Registry, which maintains the social insurance number registration program, works closely with the CPP administration, Revenue Canada and the QPP to ensure that the social insurance register has the most accurate information possible.

The number of social insurance numbers issued during 1996-97 was 669,501, a drop from the 1995-96 total of 693,933. As of March 1997, the total social insurance numbers issued since the program began is 32,634,675.

Ensuring Program Integrity

As in previous years, the department carried out a review of a random sample of CPP files "in pay" during 1995. This annual review provides both the department and Parliament with a conservative, statistically-based estimate of monetary errors in the CPP program. It identifies the nature and extent of

errors in the program and provides proposals to reduce or eliminate them.

Estimates indicate that while CPP mispayments may be as high as \$82 million, the most likely estimate is \$38 million. This represents 0.28% of the total CPP expenditures of \$13.8 billion in 1995. In order to measure continuous improvements within the CPP program, this review will be repeated annually.

In 1995, Treasury Board approved a two-year funding plan for other Program Integrity initiatives, contingent upon a minimum return on investment of 5:1 per annum for each dollar approved. The two years ended in March 1997 with some significant findings.

Approximately 53,000 CPP recipients aged 18 to 25 must be in full time attendance at school or university in order to qualify for benefits. The review of that group identified the extent and value of monetary error due to undisclosed school drop-outs. The results indicate that 2.4% dropped out during the school year but this was not detected until at least the end of that school year. Based on these findings, the savings are approximately \$1.5 million or 1.4% of the total payable for the year under review.

A second review examined all recipients of CPP survivor benefits, paid through the manual Continuing Supplementary Cheque system. This identified pensioners over 65 whose benefits should have been recalculated on their 65th birthday but were not. The preliminary findings have revealed approximately \$2.6 million in mispayments.

Additional Treasury Board funding has been obtained for two new reviews during 1997-98. One will examine the accounts of retirement beneficiaries over 85 and survivor beneficiaries over 80 to ensure continued entitlement. The second will review the CPP survivor beneficiary population where the payment system indicates the account should have been reviewed for possible combination with a benefit being paid by the Quebec Pension Plan. It is expected that these reviews will yield a return of approximately \$1.25 million for a total cost of \$111,000.

Each of the reviews, including the random reviews, results in recommendations to the program administrators for changes in procedures or staff training to avoid a recurrence of the same issue in the future.

During 1996-97, 23 suspected CPP fraud cases were referred to the RCMP for criminal investigation, with a value of \$352,692. Of these, 8 were related to CPP disability, in the amount of \$278,566. Approximately \$626,783 was recovered in 1996-97 from CPP fraud cases from previous years.

Managing Accounts Receivable

ISP has continued to work cooperatively with HRDC Corporate Collections to maximize recovery of debts owing to the Crown. About \$7.5 million was recovered on CPP accounts in 1996-97, including cash payments on accounts involving fraud and benefits in pay.

Supporting Our Systems

Business systems support ensures that the CPP application system operates effectively. To provide stability for the conversion to the Client Service Delivery Network (CSDN), no further changes were permitted to the existing CPP Legacy System beginning in 1995-96, unless the changes were deemed essential; for example, to accommodate legislated changes, correct mispayment situations, emergencies affecting systems performance or data clean-up in support of ISP Redesign activities.

Within these limitations, work continued in order to:

- prepare for proposed changes to the CPP legislation expected in the fall of 1997 for implementation January 1998;
- respond to requirements for a notional tax from the Department of Finance;
- react to a large volume of unidentified earnings being assigned to contributors as a result of the SIN Manipulation project; and
- prepare for the year 2000.

Support for the Rules Based Reassessment System interface with the Legacy System continued throughout the year.

In support of ISP Redesign, data continues to be cleaned up, test cases are being provided and some centralized functions are being studied to determine the feasibility of decentralizing them.

Communicating with Our Clients

The Department's CPP communications strategy continued in its third year. This initiative aims at improving public awareness and understanding of the benefits and provisions of the CPP. Resources dedicated to the strategy for 1996-97 were \$2.7 million.

The initiative has both headquarters and regional components. At headquarters, a communications unit provides advice and support to CPP managers, senior officials and the Minister as well as to regional outreach teams. These teams, located across Canada, provide information about CPP benefits and services to Canadians at the local level through a variety of activities:

- partnerships with third parties such as employers and social service agencies
- seminars for financial planners, personnel managers, unions, hospitals, organizations, and companies undergoing downsizing
- · consumer and trade shows
- training sessions to departmental staff and external service providers
- products such as fact sheets, brochures and posters.

Increasingly, it is being shown that partnerships are the most effective way to reach large numbers of clients at a reasonable cost. These clients represent both current and potential recipients of any CPP benefit, from children and students to seniors.

The next two years of the strategy will continue to emphasize the development of partnerships. Random evaluations of outreach activities will be carried out in order to monitor them and ensure their effectiveness. In addition, product development will be guided by a working group of headquarters and regional representatives.

Communications materials produced under this initiative are written in plain language and published in both print and alternate formats as well as posted on the ISP Internet home page which provides information on all Income Security Programs, including the CPP. The address is: http://www.hrde-drhc.ge.ca/isp

Credit Splitting

The equal division of CPP "pension credits" – built up by a couple while they lived together – is mandatory and automatic once the Minister receives the necessary information about a divorce. Credit splitting also is available to separated spouses, both legal and commonlaw, upon application. Couples cannot waive the right to credit splitting except in Saskatchewan. Quebec and B C

Efforts to increase the public's awareness of this provision have resulted in applications from 11.6 percent of divorcing couples. This was primarily as a result of mailings about credit splitting to over 500,000 divorcing spouses since 1993. Information is also provided by the regional outreach teams as part of the CPP Communications Strategy.

Although credit splitting is mandatory, no means exist to effect automatic credit splitting. Currently, information on divorcing couples is received from Justice Canada. As well, Revenue Canada is now providing information on couples who change marital status.

Establishing Information Sharing and **Reimbursement Agreements**

The department continues to pursue opportunities for information sharing and reimbursement agreements with provincial governments, municipal authorities and private insurers and the CPP.

In 1996/97, there were 14 agreements in place with provincial governments, mainly for the assignment of retroactive CPP benefit payments to provincial authorities who have made social assistance payments. New provincial agreements were implemented with Newfoundland and Manitoba and several others are being negotiated.

The 38 agreements with private insurers allow them to be reimbursed for that portion of the disability benefit that would not have been payable had the client been in receipt of CPP benefits.

Changes to Legislation and Regulations

Most of the provisions of Bill C-54, an Act to amend the Old Age Security Act, the Canada Pension Plan, the Children's Special Allowances Act and the Unemployment Insurance Act came into force on July 13, 1995. Some sections, January 1, 1997, including provisions which streamline the appeals process. Under the Old Age Security Act and the Canada Pension Plan, appeals are now part of the Canada Pension Plan Review Tribunal process, In addition, the requirements for delegating authority under the CPP, which were very restrictive, have been removed. To implement these changes, some amendments were necessary to both the OAS and CPP Regulations. These and other minor regulatory changes came into force on January 1, 1997.

Facing Charter Challenges

The CPP has been the subject of a number of challenges under the Canadian Charter of Rights and Freedoms. The Charter challenges against the CPP

involve the provisions for survivor benefits, disability benefits and credit splitting. The major issues raised are whether or not survivor benefit provisions are discriminatory because same-sex partners are not entitled to survivor benefits; likewise, persons under 35 years of age, who are not disabled and have no dependent children are ineligible. One case is now proceeding through the courts while approximately 34 cases are in the CPP appeal process.

On June 13, 1995 a Review Tribunal ruled that the denial of survivor benefits to a same-sex partner violated the Charter. The Minister appealed that decision to the Pension Appeals Board.

On April 16, 1996, the Federal Court of Appeal ruled that the age provisions governing the payment of CPP survivor benefits do not discriminate contrary to Section 15 of the Charter. On June 17, 1996 the appellant requested a leave to appeal to the Supreme Court. Leave was granted in December 1996.

Our Social Security Agreements

Social security agreements protect the pension rights of persons who move from one country to another to live or work. The Canadian programs included in agreements are the Canada Pension Plan and Old Age Security.

The basic objectives of agreements are to:

- reduce or eliminate restrictions, based on citizenship, preventing Canadians from receiving pensions from another country
- permit continuity of social security coverage when a person is temporarily

Table 16 - CPP Benefits Under Social Security Agreements

AND STATE OF THE STATE OF	in month of December	(in thousands)	
1995	3,672	\$10,934	
1996	3,868	\$11,246	

Number of benefits in pay

working in another country, and prevent situations where a person must contribute to the social security programs of two countries for the same work

Calendar year

- make it easier to become eligible for benefits by adding together creditable periods under the schemes of two or more countries
- reduce or eliminate restrictions on the payment of pensions abroad.

As of March 31, 1997, Canada had agreements in force with 31 countries. Agreements with Chile, Korea and New Zealand had been signed, but were not yet in force. A limited agreement dealing only with the obligation to make contributions was signed with the United Kingdom. There were agreements under negotiation with Croatia, Morocco, Slovenia, Trinidad and Tobago, and Turkey. Table 16 outlines the number and amount of benefits paid under Social Security Agreements for 1995 and 1996.

In 1996, the total amount of foreign pensions that came into Canada from other countries exceeded \$1.5 billion. By contrast, only about \$336 million was paid in OAS and CPP benefits to persons living outside Canada, a ratio of about 4.5:1 in Canada's favour. Specific to the 31 social security agreements, the ratio of benefits coming into Canada versus those being paid out is 6.6:1.

Supporting Service Delivery

The services provided to the CPP from HRDC Corporate Services are:

 financial and administrative services including security and internal audit

- human resource services
- systems
- communications
- strategic policy including program evaluation
- legal services

These services support operations across the country delivering the services to CPP clients and providing program management and direction.

Interface with the Québec Pension Plan (QPP)

The CPP and the QPP meet regularly to discuss issues of common concern, particularly as related to the approximately 100,000 Canadians who contribute to both plans (called dual contributors). Agreements are entered into between the two administrations to regulate the flow of work, to deal with legislative changes or differences, and to address operational matters.

In 1996-97, discussions dealt mainly with ISP Redesign and its impact on joint CPP-QPP operations, and proposed legislative changes to both Plans. These discussions will continue in 1997-98 to ensure effective links and to deal with the operational impact of any CPP and OPP legislative changes.

Public Works and Government Services Canada

Public Works and Government Services Canada (PWGSC) issues payments on behalf of the CPP and provides support services through the operation of information processing systems. These systems





contain information on contributor earnings, benefit payments and program statistics. The cost of these services was about \$15 million in 1996-97.

Accommodation services are also provided at a cost of about \$13 million.

Activities and Initiatives

In 1996-97, PWGSC issued 37.6 million cheques and direct deposit payments compared with 36.8 million in 1995-96 and 35.6 million in 1994-95.

The percentage of benefit recipients who have chosen direct deposit continues to grow as illustrated in table 17.

During the 1996-97 fiscal year, 25.6 million payments were issued as direct deposit payments compared with 20.3 million in 1995-96.

A summary of tax information slips issued annually in February is presented in table 18.

Table 18 - Information Slips Issued

1994–95	3,345,896	
1995–96	3,536,684	
1996-97	3,426,993	

Revenue Canada

Revenue Canada (RC) administers Part I of the CPP legislation which involves the determination and collection of contributions from employees, employers and the self-employed. RC provides reports on the earnings and contributions of contributors as well as statistical and other information. These activities, performed on behalf of the CPP, are fully integrated in RC's revenue collection processes and make up about 6% of the total funds collected by RC.

The cost of these services is determined by a formula involving a detailed cost survey, conducted periodically, which measures direct, indirect, and overhead costs. In subsequent years, until a new survey is done, costs will be charged on the existing ratio after adjusting for volume, wage/price index growth and other charges. In 1996-97, the cost of these services was about \$70 million

Activities and Initiatives

Revenue Canada's main activity on behalf of the CPP involves the determination and collection of contributions and related activities. Approximately 96% of the CPP contributions collected are remitted by employers and employees, and about 4% by the self-employed. The amounts collected annually are displayed in table 19.

Compliance/Enforcement

To complement the collection activity, RC assesses and verifies earnings and contributions, advises employers and employees of their rights and responsibilities, conducts audits and reconciles reports and T4s submitted.

The compliance and enforcement process is divided into stages based on a progressive, risk-based approach ranging from computerized matching of data to on-site audits. As well, employers may request on-site assistance for clarification on payroll withholding requirements or employees may seek advice if they feel their employer is contravening a related tax law.

Although most employers remit the proper amounts, some fail to comply usually due to cash flow problems. When contacted by RC, these employers recognize that the employee trust deductions must be

properly deducted, remitted and reported. Future compliance by these employers is generally good.

There are about 1.2 million employer accounts open of which approximately 900,000 are active at any one time. During 1996-97, 64,083 audits were conducted. The level of audit activity is summarized in table 20. Like all other RC activities, an audit consists of not only reviewing the CPP deductions and remittances, but also verifying income tax and employment insurance deduction requirements.

Rulings

RC tax service offices and tax centres issue rulings, when requested or for enforcement purposes, on whether or not a worker is considered to be an employee with pensionable employment and on earnings for which contributions are required. RC's goal is to complete these rulings within 30 days of receipt.

In 1996-97, RC made approximately 15.000 rulings for CPP purposes and an additional 25,000 involving the CPP in conjunction with Employment Insurance rulings.

Appeals

Under CPP, individuals have appeal rights for rulings and assessments. RC encourages employers to contact the Problem Resolution Program Co-ordinator before resorting to the more formal appeal process. Appeals, administered by independent appeals staff in RC tax service offices, result from approximately 9.3% of the CPP rulings and assessments issued. For issues that remain unresolved, there is recourse through the judicial process ranging from the Tax Court to the Supreme Court of Canada.





Coverage and Extensions of Coverage under Social Security Agreements

In accordance with Canada's social security agreements with many countries, RC issues certificates of coverage and extensions of coverage relating to the CPP. In 1996-97, RC issued about 1,938 certificates of coverage and 166 extensions of coverage. In addition, foreign employers, without a place of business in Canada, may apply to have coverage under the CPP for employment they provide in Canada.

In order to better serve clients, tax service offices also present seminars

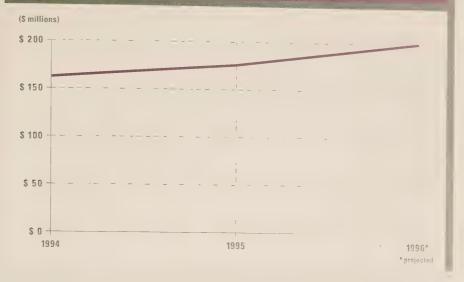
on various ruling-related aspects of the CPP such as "Contract of Service".

Record of Earnings

The number of incorrect entries transmitted by RC to CPP, as well as the number of entries held in the unidentified files at CPP, have been problems being addressed by an Interdepartmental Quality Improvement Team (RC and CPP) as a priority. The team's efforts have resulted in the quality of transmitted information improving significantly. In 1996, a special project involving the use of automated processes to reduce the

	Period ending March 31		
and the second	1995–96	1996-97	1997–98 (projected)
lumber of audits completed	69,000	64,083	65,462
Number of audits resulting n assessments for CPP	41,000	37,809	39,277
Percentage of audits resulting n assessments	60%	59%	60%





number of entries held on the unidentified files was successfully completed. This project resulted in \$2.543 billion in earnings and \$37.6 million in contributions being posted to valid accounts.

Overpayments and Adjustments

For the year ending December 1996, an estimated \$200 million in CPP overpayments were processed. Some adjustments were also necessary on CPP contributions by self-employed individuals.

Overpayments and adjustments occur when an individual is employed at two or more positions at the same time during the year and is paying contributions for each employment. At year end, RC issues a refund since contributions are only paid up to a yearly maximum pensionable earnings regardless of the number of jobs held during the year. Table 21 presents the overpayments and adjustments processed by year.

Publicity

RC publishes information on the CPP in a variety of guides, booklets, pamphlets, circulars, and news releases. The "Index to Revenue Canada Services" and the pamphlet entitled "Alimony or Maintenance" are two examples. RC also publicizes CPP information through such activities as the Community Volunteer Income Tax Program and "Teaching Taxes".

Department of Finance

The Department of Finance is responsible for leading the statutory review of the CPP and negotiations with the provinces, which can result in major changes to the CPP, including contribution rates. It also manages the CPP Investment Fund by investing CPP monies not immediately needed to pay benefits in securities of provincial and territorial governments, provincial Crown agencies, or the Government of Canada in accordance with the provisions of the CPP.

All securities are non-negotiable and have a 20-year term or less as fixed by the Minister of Finance on the recommendation of the Chief Actuary of the Office of the Superintendent of Financial Institutions (OSFI). The interest rate on the securities is determined by the Minister

of Finance based on the average yield to maturity of all outstanding Government of Canada obligations with terms of 20 years or more. Prior to maturity, these securities are redeemable in whole or in part at the option of the Minister of Finance, who must receive written notice six months before the proposed redemption date.

At March 31, 1997, the balance in the Investment Fund was \$34 billion.

Activities and Initiatives

As provided for in the CPP, and to ensure the CPP's long-term financial stability, contribution rates for the 25-year schedule are reviewed every five years by the federal, provincial, and territorial Finance Ministers. "An Information Paper for Consultations on the Canada Pension Plan". released in February 1996, formed the basis of federal, provincial and territorial consultations on the CPP held across Canada beginning in April 1996. The Department of Finance co-ordinated the consultation process and a 1-800 number was established for Canadians to call to obtain a copy of the Information Paper or more information on the consultation process.

In February 1997, draft CPP legislation was tabled in the House of Commons. This is discussed in detail under Special Initiatives on page 14.

Office of the Superintendent of Financial Institutions

The Chief Actuary prepares Actuarial Reports for tabling in Parliament on the projected financial status of the CPP Account, calculates the effects on the CPP Account of proposed amendments to the CPP once a Bill has been introduced, and prepares actuarial estimates on proposed changes to the Plan's provisions at the request of the Department of Finance and HRDC.

Activities and Initiatives

In 1996-1997, actuarial advice, cost estimates and long term financial projections on numerous proposed changes to the CPP financing and benefit provisions were provided to HRDC and the Department of Finance. Most of these requests pertained to the quinquennial review relating to proposals by federal and provincial governments, for changes to the CPP benefit provisions and financing of the Plan.

Work on DYNACAN, a microsimulated demographic and economic projection model interacting with the existing macrosimulated actuarial model to provide financial advice to HRDC for CPP social policy purposes, progressed intensely during 1996-1997. The model has now been developed and works effectively but needs to be validated for consistency with the aggregate outcome of the actuarial model. The demographic component is now practically validated. It is expected that the remaining two components (earnings, benefits) will be validated by the end of 1997.

The cost of these services was about \$1.4 million in 1996-1997.

Disability Initiatives

The fiscal year 1996/97 marked a time of significant change for the Canada Pension Plan (CPP) disability program. This chapter is devoted to recapping the wide range of activities that has served to set the program on a new direction.

Recent trends

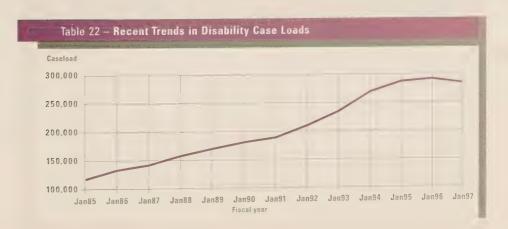
In recent years, the CPP, like many other disability income programs, has experienced the impact of rising costs and caseloads. This was due to a number of factors: changing labour market conditions which resulted in the disappearance of many traditional jobs and higher unemployment; increased referrals of potential clients from social assistance and private insurance carriers; and legislative changes in 1987 and 1992 which expanded disability coverage.

A number of measures were adopted to deal with these pressures:

 Revised guidelines for the medical determination of disability were introduced at the end of August 1995;

- CPP established a reassessment program to regularly monitor the continuing eligibility of disability beneficiaries;
- A pilot offering vocational rehabilitation to clients most likely to benefit was initiated in 1993;
- A reminder was sent to all current CPP disability beneficiaries about their benefits, the purpose of the reassessment program and their responsibility to keep the administration informed of any changes that might affect their ongoing eligibility; and
- A combination of legislative changes and administrative measures contributed to a fairer and more timely appeals process.

Beginning in late 1994, there has been a significant decline in the CPP disability caseload growth rate, with a corresponding decrease in expenditure growth. By 1996-97, the number of new benefits declined and the number of beneficiaries leaving the program increased. As a result, the overall disability caseload dropped by 7,533 to 284,303 beneficiaries in 1996-97 as illustrated in table 22.







The number of new disability applications continues to decline as illustrated in table 23.

These trends confirm that the comprehensive measures put into place continue to be effective in managing the costs of the CPP disability program.

Key activities in 1996/97

Regionalization of processing

During 1996-97, the operation of CPP disability benefits was decentralized across the country. Although the transition period caused some delays in the adjudication of applications, measures have been taken to improve the response time. Regionalization is resulting in better service by bringing decision-making on initial applications and reconsiderations closer to clients throughout Canada.

Reassessment program

The objective of the reassessment program is to monitor and confirm the continuing eligibility of clients who receive disability benefits. In 1996-97, 14.036 reassessments were finalized.

almost double the previous three years. Close to 19% of those reassessed showed sufficient improvement in their conditions or changes in their circumstances to have their benefits ceased, producing annual savings to the CPP Account of \$24.4 million. In addition, \$12.8 million in overpayments were identified

Table 24 shows the total savings and overpayments identified from the beginning of the reassessment program to date. To March 31, 1997, 28,721 clients have been reassessed, of which 8,435 benefits were ceased, resulting in annual savings of \$77.7 million and an additional \$30.4 million in identified overpayments.

The reassessment program also includes the Employment Insurance/CPP data match project which is a joint venture of the Employment Insurance Program and the CPP. This activity addresses clients of both the EI and CPP programs to ensure that only those who are eligible continue to receive benefits.

Table 24 -	Reassessmen	t Savinus and	Overpayments
		Convinde till	UVCIDAVIIICILIS

Year ending March 31	Number of decisions	Number of benefits ceased	% of benefits ceased	·Annual savings	
1993–94	4,301	1,793	41.6	\$16,054,032	\$5,367,200
1994–95	3,407	1,681	49.3	\$16,261,680	\$6,224,600
1995-96	6,968	2,328	33.4	\$21,060,672	\$6,033,510
1996-97	14,036	2,633	18.8	\$24,353,940	\$12,808,696
Total	28,721	8,435	29.4	\$77,730,324	\$30,434,006

^{*} Based on actual henefit rates for 12 months

Vocational Rehabilitation

CPP initiated a pilot in 1993, called the National Vocational Rehabilitation Project (NVRP), which was designed to provide disability beneficiaries with vocational rehabilitation services to assist them in returning to work.

Services to clients were provided through contracts with private-sector companies across Canada.

As of March 31, 1997, about 21,199 files had been reviewed, with 779 clients being referred to the contracted companies. Of these, 271 clients successfully left CPP disability with another 165 clients continuing in active rehabilitation. Cost savings as a result of the pilot were estimated to be \$6 million after three years.

A proposal to establish a vocational rehabilitation program as an ongoing part of the CPP disability program was approved in December 1996. This was based on the findings of the evaluation of the NVRP carried out in 1996 as part of the department's evaluation of the disability component of CPP, and reinforced in the recommendations in the September 1996 Report of the Auditor General on the CPP disability program. A planning committee was established to develop and carry out the vocational

rehabilitation program as a regular part of the regional delivery of the CPP disability program, beginning with pilots in Nova Scotia, Ontario and Manitoba regions.

Federal/Provincial Partnerships

As part of the First Ministers conference in June 1996, a working group reporting to the Minister of HRDC and the provincial social services Ministers was formed. During 1996/97, the working group established terms of reference and developed a workplan for looking at ways to improve the existing system of benefits and services for persons with disabilities. CPP is actively participating on this working group with particular focus on harmonization initiatives that improve client service and support clients to return to work.

Another major initiative launched by the CPP was to actively seek information sharing agreements with workers' compensation boards (WCBs). In May 1996, negotiations between the CPP and the Alberta WCB were initiated as a pilot project. Since that time, negotiations have begun with six other WCBs. It is expected that some agreements will be signed in 1997/98.

The Auditor General's Report

In September 1996, the Auditor General of Canada reported on the Disability component of the CPP in his Annual Report. Recommendations for improvement focussed on:

- data gathering and analysis of benefits paid and profiling of beneficiaries;
- developing management practices for consistency in the adjudication of a disability application along with a quality control program to ensure that the decisions are relevant and fair:
- identifying clients for reassessment at the time the application is accepted, doing more reassessments and making the activity more visible as an element of eligibility control;
- pursuing methods of integrating common disability-related activities with other organizations by better understanding the characteristics of co-beneficiaries of these organizations and concluding exchange of information
- developing a comprehensive action plan to establish priorities to implement measures to improve operational efficiency and effectiveness.

Evaluation of the CPP Disability Program

In 1996-97, an evaluation of the disability benefit component of the CPP, including the National Vocational Rehabilitation Project (NVRP), was completed. The evaluation concluded that the CPP disability program should increase its cooperation with other complementary programs and that it should modify adjudication procedures and introduce new tools to improve administration.

The report noted the low level of resources dedicated to rehabilitation activities, but found that the NVRP was a success being both cost-effective and providing societal benefits.

Strategic Management of CPP Disability

In order to address the complex challenges faced in administering the CPP disability program and to address the findings of the Auditor General's Report and the program evaluation, a number of measures were put in place during 1996/97 by the Assistant Deputy Minister (ADM), Income Security Programs.

In response to a request by Treasury Board, work began on a Strategic Management Plan which identifies the strategic issues to be addressed, sets out the framework for change and outlines, a new program approach based on the findings from the reports and recommendations put forth. The Plan has been developed in consultation with the Office of the Auditor General and the Treasury Board and focuses on a three-year timeframe.

A special unit, reporting to the ADM Income Security Programs, was established to provide overall management and coordination of this change process. It is responsible for developing and implementing the Strategic Management Plan and Action Plans, coordinating major initiatives related to CPP Disability, establishing a process to monitor and measure results against plans, and consulting to determine key issues and priorities.

As well, a Steering Committee was established to provide advice to the ADM, Income Security Programs, as the Action Plan is developed and implemented.

Strategic Objectives

These objectives summarize and provide the guiding direction for changes. The strategic objectives are:

- To define the future role of CPP
 Disability in the overall social security
 system and as it relates to the long
 term viability of the Canada Pension
 Plan:
- To determine the appropriate relationship of the CPP disability program with other components of the disability social security system, including administrative harmonization;
- To balance the objective of replacing earnings for as long as clients are unable to return to work, with the need to identify those who have regained the capacity to work and to provide

- services and supports to improve a person's residual earnings capacity;
- To acquire a state-of-the-art management information system to enable
 HRDC managers to effectively plan,
 direct and evaluate the program, and
 to respond to potential problems in
 a timely manner, and with national
 consistency; and
- To improve management practices and bring about cost-effective and efficient program delivery.

The issues facing the management of the CPP disability program are complex varied and far reaching. To date, some actions have been taken and many are in the planning or development stages. The results will be reported on in future reports.



The Canada Pension Plan Account

CPP Account

The CPP Account is established in the Accounts of Canada by the CPP to record the contributions, interest. pensions, benefits and administrative expenditures of the Plan. The authority to spend is limited to the balance in the Account. The Statement of Revenue, Expenditures and Balance of the CPP Account for the year ended March 31. 1997, with the previous year's statement as audited by the Auditor General of Canada, is presented on page 44. The Account's balance represents the excess of contributions and interest over benefits and expenditures accumulated since its inception in 1966.

The CPP Account, which is audited annually by the Auditor General of Canada, is a separate account in the Accounts of Canada. The Account is intended to hold about two years' worth of benefits. As of March 31, 1997, the balance in the Account of about \$37.8 billion equals 2.22 years' worth of benefits. These funds provide a reserve in the event of circumstances such as lower than expected contributions because of economic conditions or higher than expected benefit payments.

The CPP Account comprises an operating reserve and the CPP Investment Fund. The operating reserve is maintained at a level to meet the anticipated benefit payments and administrative charges from the Account for the next three-month period. These funds may not be invested in provincial securities but earn interest on the average daily balance of the reserve. The interest paid on these funds is calculated by averag-

ing the unweighted average yields at tender on three-month Treasury Bills during the month the interest is paid, less one-eighth of one percent. During 1996-97, the average interest rate earned by the operating reserve was 3.85% or \$178 million. All funds in excess of this, as determined by HRDC, are invested in securities.

CPP Investment Fund

In accordance with the CPP, excess funds are invested in securities of the provincial and territorial governments, provincial Crown agencies, and the Government of Canada. All securities are carried at cost, are non-negotiable, and have a 20-year term or less, as fixed by the Minister of Finance on the recommendation of the Chief Actuary. The share of total CPP contributions credited to a province or territory during the preceding ten years determines the distribution of investments among the provinces and territories. Funds not accepted by the provinces as well as excess funds received from armed forces personnel and other employees outside of Canada are invested in Government of Canada securities. At March 31, 1997, the balance in the Investment Fund was \$34 billion with all securities held having a 20-year term.

Prior to maturity, these securities are redeemable in whole or in part, at the option of the Minister of Finance, who must receive written notice six months before the proposed redemption date.

Interest

The interest rate on the securities is determined at the time of purchase by the Minister of Finance

based on the average yield to maturity of all outstanding Government of Canada obligations with terms of 20 years or more. The Statement of Purchases, Disposals and Balance for the year ended March 31, 1997, as presented on page 45 summarizes the status of the Investment Fund as of March 31, 1997. In 1996-97, the Investment Fund earned about \$3.927 billion in interest, which was deposited in the CPP Account. Maturing securities are regularly redeemed with the principal and any outstanding interest reimbursed by the provinces and territories. In 1996-97, \$1.490 billion in securities bearing an average interest rate of 9.0% matured and were redeemed. All interest and principal payments have always been paid by the provinces and territories when due.

Although no funds have been available to invest in securities since July 1992, surplus funds have been available on a periodic basis for short-term investments. These funds could not be invested in longer term securities because of the requirement to maintain a three-month operating reserve. As a result, short-term investments of \$1.207 billion were made during 1996-97.

Rates of Return

Securities currently held – including securities bought in the early 1980s, when the interest rates were relatively

high – bear a weighted average annual rate of return of 11.25%. Since all securities are held for a 20-year term, the average rate of return for the securities held in the Investment Fund will remain above 10.42% for the next 15 years.

Administrative Costs

The approximately \$242 million annual cost for 1996-97 to administer the CPP is shared among all departments responsible for delivering CPP services. Human Resources Development Canada (HRDC) accounts for the largest portion, \$143 million; Revenue Canada (RC) spends about \$70 million; Public Works and Government Services Canada (PWGSC) about \$28 million and the Office of the Superintendent of Financial Institutions (OSFI) about \$1 million.

Costs are allocated to the CPP based on the costing principles approved by Treasury Board and included in the Memorandum of Understanding established with each department. The underlying characteristics of the costing principles are that the charges have a causal relationship to the CPP for their occurrence and are traceable.

As a ratio of costs-to-benefits-paid, administrative expenses represent 1.46% of the \$16.7 billion in benefits paid. This ratio compares favourably with that of other pension plans.

Table 25 presents the administrative expenditure forecasts for the coming years.

Table 25– Summary of Actual and Estimated CPP Administrative Costs Forecast of Expenditures by Department/Branch – 1995-1996 to 1999-2000 (in thousands)

and the state of the	 ACTL 1995–96	S 1996–97	 997–98	RECAST 998–99	999-00
HRDC administration	\$ 135,129	\$ 143,727	\$ 167,294	\$ 58,116	\$ 55,741
Revenue Canada	\$ 60,585	\$ 69,814	\$ 73,130	\$ 76,494	\$ 80,056
PWGSC-Services	\$ 15,809	\$ 14,841	\$ 15,979	\$ 15,979	\$ 15,979
PWGSC-Accommodation	\$ 6,183	\$ 12,407	\$ 9,182	\$ 9,182	\$ 9,182
OSFI	\$ 1,311	\$ 1,375	\$ 1,301	\$ 1,390	\$ 1,425
Total	\$ 219,017	\$ 242,164	\$ 266,886	\$ 161,161	\$ 162,383



The Canada Pension Plan Account and the Canada Pension Plan Investment Fund

Financial Statements
MARCH 31, 1997

Canada Pension Plan Account and the Canada Pension Plan Investment Fund

Management's Responsibility for the Financial Statements

The following financial statements have been prepared by management of the Department of Human Resources Development in accordance with the accounting policies set out in Note 2 to the financial statements. The integrity and objectivity of the data and estimates in these financial statements are management's responsibility. Management is also responsible for all other information in the Annual Report of the Canada Pension Plan and for ensuring that this information is consistent, where appropriate, with the information contained in the financial statements of the Canada Pension Plan Account and the Canada Pension Plan Investment Fund

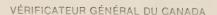
In support of its responsibility, management has developed and maintains books of account, financial and management controls, information systems and management practices. These are designed to provide reasonable assurance as to the reliability of financial information, and to ensure that transactions are in accordance with the Canada Pension Plan (Act) and Regulations, as well as the Financial Administration Act and Regulations.

The Auditor General of Canada, the external auditor of the Canada Pension Plan, audits the financial statements and reports to the Minister of Human Resources Development.

Marcel Nouvet
Assistant Deputy Minister
Financial and Administrative Services

July 25, 1997

Mel dappe Deputy Minister





AUDITOR GENERAL OF CANADA

AUDITOR'S REPORT

To the Minister of Human Resources Development

I have audited the statement of revenue, expenditures and balance of the Canada Pension Plan Account and the statement of purchases, disposals and balance of the Canada Pension Plan Investment Fund for the year ended March 31, 1997. These financial statements are the responsibility of the management of the Department of Human Resources Development. My responsibility is to express an opinion on them financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. These standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the balances of the Account and the Investment Fund as at March 31, 1997 and the revenue and expenditures of the Account and the purchases and disposals of the Investment Fund for the year then ended in accordance with the accounting policies and out in Note 2 to the financial statements.

I wish to draw to your attention that, as disclosed in Note 5, overpayments for disability pensions occur and the amount could be significantly higher than the amount estimated

L. Denis Desautels, FCA Auditor General of Canada

Ottawa, Canada 25 July 1997

4

Canada Pension Plan Account

Statement of Revenue, Expenditures and Balance for the year ended March 31, 1997

(in millions of dollars)	4007	1006
Revenue	<u>1997</u>	<u>1996</u>
Contributions (Note 3) Interest (Note 4)	11,391 _4,118	10,607 4,376
Expenditures	<u>15,509</u>	14,983
Pensions and benefits (Note 5) Retirement Disability Survivor Disabled contributor's child Death Orphan	11,179 2,512 2,309 245 234 	10,531 2,538 2,222 256 230
Administration costs (Note 6)	16,676 <u>242</u> 16,918	15,969
Excess of Expenditures over Revenue	(1,409)	(1,205)
Balance at beginning of year	39,168	40,373
Balance at end of year	37,759	39,168
Represented by: Canada Pension Plan Investment Fund Deposit with the Receiver General for Canada	34,041 _3,718	35,531 _3,637
Contingencies (Note 9)	<u>37,759</u>	<u>39,168</u>

The accompanying notes are an integral part of these financial statements.

Approved by the Department of Human Resources Development:

Marcel Nouvet

Assistant Deputy Minister
Financial and Administrative Services

Mel Cappe Deputy Minister

Canada Pension Plan Investment Fund

Statement of Purchases, Disposals and Balance for the year ended March 31, 1997

Balance at beginning of year Purchases Disposals	Balance at end of year
Disposais	
Investment in securities (Note 7)	
Newfoundland 737 - 31	70-0
Prince Edward Island 162 - 6	*85
Nova Scotia 1,337 - 60	1.272
New Brunswick 989 - 45	C.
Quebec 119 - 8	197
Ontario 15,770 - 813	14,4
Manitoba 1,875 - 86	1,753
Saskatchewan 1,587 - 65	.,:
Alberta 4,476 - 141	, ,,,,==
British Columbia 4,997 - 224	d
Yukon Territory 4 -	
32,053 - 1,479	20,674
Canada 3,478 - 11	1,46
<u>35,531</u> <u>- 1,490</u>	34,011

The accompanying notes are an integral part of these financial statements.

Approved by the Department of Human Resources Development:

Marcel Nouvet
Assistant Deputy Minister
Financial and Administrative Services

Mel Cappe Deputy Minister

Canada Pension Plan Account and the Canada Pension Plan Investment Fund

Notes to financial statements for the year ended March 31, 1997

1. Description of the Canada Pension Plan

a) General

The Canada Pension Plan began in 1966. It is a compulsory and contributory social insurance program operating in all parts of Canada, except Quebec, which operates a comparable program. The Plan's objective is to provide a measure of protection to workers and their families against the loss of earnings due to retirement, disability or death.

b) Establishment and authority

The Canada Pension Plan (CPP) is a federal/provincial plan established by act of Parliament in 1965.

The Minister of Human Resources Development is responsible for the administration of the act governing the Canada Pension Plan other than collecting contributions, which is the responsibility of the Minister of National Revenue. The Minister of Finance and his provincial counterparts are responsible for setting CPP contribution rates.

The Canada Pension Plan Account (the Account) was established in the accounts of Canada by the Act, to record the contributions, interest, pensions, benefits and administration costs of the Plan. The authority to spend is limited to the balance of the Account.

The Canada Pension Plan Investment Fund (the Fund) was established in the accounts of Canada by the Act, to record the investment in securities of provinces, territories and Canada.

The CPP, which is under joint control of the Government of Canada and participating provinces, is not considered to be part of the reporting entity of

the Government of Canada. Accordingly, its financial activities are not consolidated with those of the Government.

c) Financing

CPP is financed on a pay-as-you-go basis, which means that the Plan operates on a current basis with pensions and benefits being paid out of current contributions. The balance in the Account is planned, over time, to equal about twice the annual payments projected for the following year.

CPP is financed from contributions and interest earned by the Investment Fund. Contributions are paid equally by employers and employees. Self-employed workers pay the full amount.

From 1966 to 1986, the combined employeremployee contribution rate remained at 3.6% of pensionable earnings. In 1987, it was raised to 3.8% and has increased yearly by 0.2% to reach 5.6% in 1996. In 1997, the combined contribution rate was increased by 0.25% to reach 5.85%. The maximum combined contributions are \$1,786 for 1996 and \$1.890 for 1997.

The Fifteenth Actuarial Report of the Chief Actuary of the Office of the Superintendent of Financial Institutions was tabled in the House of Commons in February 1995. Discussions between the federal and provincial ministers of Finance followed, to determine the contribution rates for the next 25 years. Initiatives are currently underway to modify the act governing the CPP (see Note 8).

As stated in the Act, changes to contribution rates require the approval of at least two-thirds of the provinces having in the aggregate not less than two-thirds of the population of all included provinces.

d) Pensions and benefits

Retirement pensions - A retirement pension is payable to each contributor at age 60 and over, according to the provisions of the Act. The monthly amount is equal to 25% of the contributor's average monthly pensionable earnings during the pensionable period. The amount may be reduced or increased depending upon whether the contributor applies for a retirement pension before or after age 65. This adjustment cannot exceed 30%. The maximum monthly pension payable at age 65 in 1997 is \$736.81.

Disability benefits - A disability benefit is payable to a contributor who is disabled, according to the provisions of the Act. The disability benefit to be paid includes a flat rate portion and an amount equal to 75% of the earned retirement pension. The maximum monthly disability benefit in 1997 is \$883.10.

Survivor's benefits - A survivor's benefit is payable to the surviving spouse of a deceased contributor, according to the provisions of the Act. For a spouse under the age of 65, the benefit consists of a flat-rate portion and an amount equal to 37.5% of the deceased contributor's earned retirement pension. A surviving spouse between the ages of 35 and 45 who

is not disabled or who has no dependent children receives reduced benefits. For spouses aged 65 and over, the benefit is equal to 60% of the retirement pension granted to the deceased contributor. The maximum monthly benefit payable to a surviving spouse in 1997 is \$442.79.

Disabled contributor's child and orphan benefits - According to the Act, each child of a contributor who is receiving disability benefits or who died is entitled to a benefit as long as the child is under the age of 18, or is between 18 and 25 and attending school full-time. The flat-rate monthly benefit in 1997 is \$166.63.

Death benefits - According to the Act, a death benefit is a one-time payment to, or on behalf of, the estate of a contributor. The benefit amounts to either 10% of the maximum pensionable earnings in the year of death or six times the monthly retirement pension granted to the deceased contributor, whichever is less. The maximum death benefit in 1997 is \$3.580

Pensions and benefits indexation - As required by the Act, pensions and benefits are indexed annually based on the Consumer Price Index for Canada rate of indexation for 1997 is 1.5%.

2. Accounting policies

The financial transactions affecting the Account and the Fund are governed by the act governing the Canada Pension Plan and its regulations.

The Act does not require that the pensions and benefits be prefunded. Accordingly, the financial statements do not provide information on the adequacy of the balance in the CPP Account to meet, on an actuarial basis, the future obligations of the CPP.

a) Canada Pension Plan Account

Contributions are recorded when funds are received from Revenue Canada. As stated in Note 3, funds transferred by Revenue Canada are estimated and are subject to review and adjustments. Adjustments, if any, are recorded as contribution

revenue in the year the funds are received or reimbursed.

Interest revenues are recorded when received

Pensions and benefits are recorded when paid

Administration costs are recorded on a modified cash basis of accounting. This basis of accounting allows the recording of amounts paid in a specific period after year-end.

b) Canada Pension Plan Investment Func-

Securities are shown at cost, which is equal to the face value at the time of purchase.

3. Contributions

The Department of Finance estimates annual contributions based on an estimate of pensionable earnings. The calculation of pensionable earnings is based on a formula using many factors such as the growth in the number of contributors and in the average pensionable earnings. Although the Department of Finance uses recent data and statistics in the calculation, a variation may occur in the factors used to estimate the pensionable earnings. For example, a variation of one percentage point in the number of contributors or in the average pensionable earnings for 1996, would result, in each case, in a change of \$115 million in estimated contributions.

Revenue Canada transfers contributions to CPP based on the Department of Finance's estimate of contributions to be collected for a calendar year as well as its own contribution collection schedule for the year. Actual pensionable earning and contribution amounts for 1996 and 1997 will only be known once Revenue Canada has processed all employers' and self-employed workers' declarations of contributions for 1996 and 1997.

Adjustments, if any, are recorded in the year in which the funds are received or reimbursed. The reimbursements for 1995 and preceding years, paid in 1996-97, amounted to \$304 million (reimbursement of \$359 million in 1995-96).

4. Interest

(in millions of dollars) Interest on investment in long term securities	<u>1997</u>	1996
Provinces and Yukon Territory Canada	3,572 355	3,703 356
	3,927	4,059
Interest on short term investments (3 month term) with Canada	13	23
Interest on deposit with the Receiver General for Canada, at a weighted-average rate of 3.85% (6.53% in 1995-96).	<u>178</u>	294
	<u>4,118</u>	<u>4,376</u>

5. Pension and benefit mispayments

Given the nature of the Plan and the number of applicants and beneficiaries, from time to time overpayments and underpayments of pension and benefit payouts may be made. Such "mispayments" occur more frequently for disability benefits. There is greater subjectivity in the adjudication of these applications and, once accepted, beneficiaries must continue to meet the eligibility criteria.

The CPP management periodically undertakes studies of the extent and causes of pension and benefit mispayments. A study, which is almost completed for the 1995 CPP payment year, estimated through statistical extrapolation the most likely value of undetected mispayments at \$38 million: underpayments of \$12 million and overpayments of \$26 million (\$11 and \$15 million respectively for 1994 payouts). Disability

mispayments, which account for most of the CPP estimate, have a most likely mispayment value of \$22 million: underpayments of \$7 million and overpayments of \$15 million (\$7 and \$14 million respectively for 1994 payouts).

For the next study, CPP management plans to implement procedures to improve the assessement of medical information in determining the continuing eligibility for disability benefits. CPP management is also attempting to identify a practical means of verifying initial medical decisions on accounts which have been in pay for many years. Since these factors were not fully assessed in the study on 1995 payouts, the extent of the

overpayment for 1995 disability benefit payouts could be significantly higher than \$15 million (\$14 million for 1994 payouts).

Additional management controls designed to reduce the occurrence of overpayments are being implemented.

Under the Act, when pension and benefit overpayments occur, CPP management is required to recover the amount from the beneficiary or seek approval for write-off. As CPP management is unable to fully identify overpayments, it cannot record, control and collect the potential accounts receivable from recipients.

6. Administration costs

(in millions of dollars)		
	<u>1997</u>	<u>1996</u>
Pension and benefit delivery and corporate services (Human Resources		
Development Canada)	143	135
Collection of contributions (Revenue Canada)	70	61
Cheque issue and computer services (Public Works and Government Services		
Canada)	15	16
Accommodation (Public Works and Government Services Canada)	13	6
Actuarial services (Office of the Superintendent of Financial Institutions)	1	1
	242	219

Administration costs of the Account represent the cost of services received from a number of federal government departments and an agency. Those costs are charged to the Account in accordance with memoranda of understanding.

The costs for pension and benefit delivery charged to the Account by Human Resources Development Canada include \$23.0 million (\$29.1 million in 1995-96) for the Income Security Programs redesign project. At

March 31, 1997 the cumulative charges to the Account for this project amounted to \$99.3 million. Based on the currently approved project baseline, the Account's share of the total cost of the project is estimated to be \$143.2 million and the planned implementation date is January 1998. However, a major replanning exercise is currently underway which will require changes to the schedule and cost. As well, an independent risk assessment is being conducted. The outcome of both activities should be known by the end of September 1997.

7 Investment in securities

The amounts invested in securities constitute the Canada Pension Plan Investment Fund. Investments in provincial, territorial and federal government securities are made with the cash on hand in excess of the three-month operating requirement. As required by the Act, the amount made available to each province is proportional to the total contributions made by residents of each province and territory during the previous 10-year period. Funds not borrowed by the provinces and territories are invested in federal securities. The securities of Quebec relate to the contributions of certain federal employees residing in Quebec.

All securities are non-negotiable and have a 20-year term or less as fixed by the Minister of Finance on the recommendation of the Chief Actuary of the Office of the Superintendent of Financial Institutions. The interest rate

on the securities is determined by the Minister of Finance based on the average yield to maturity of all outstanding Government of Canada obligations with terms of 20 years or more. All disposals of securities are made, at maturity date, at face value. Interest earned on the investments is credited semi-annually to the Account. In 1996-97, there were no funds available for long-term investment in provincial and territorial securities.

At March 31, 1997, the balance in the Investment Fund was \$34.0 billion. The following schedule presents the classification of securities by maturity dates and the weighted average annual rate of return on securities currently held. Due to redemption terms described above, the carrying value of these investments approximate fair value at year end.

(in mil	lions of	fdoll	lars)	
---------	----------	-------	-------	--

,	Mar	ch 31, 1997	March	31, 1996
Investment maturing	<u>Investment</u>	Average yield	<u>Investment</u>	Average yield
Long term investments:				
Within 1 year	1,582	9.08%	1,490	9.01%
1 - 5 years	7,935	12.27%	5,175	14.58%
Over 5 years	24,524	11.06%	28,866	10.66%
Total - Long term investments	34,041		<u>35,531</u>	
Weighted average yield on long term investments		11.25%		11.16%

8. Proposed changes to reform the CPP

During 1996-97, the federal and provincial ministers of Finance discussed changes to introduce to CPP in order to ensure that the Plan remains sustainable over the long term and to allow fuller funding. Proposed changes to reform the CPP include a more rapid increase in contribution rates, a new invesment policy, as well as changes to calculations of, and eligibility criteria to, some benefits.

To be implemented, these changes must be voted by Parliament and receive the official approval of at least two-thirds of the provinces having in the aggregate not less than two-thirds of the population of all included provinces. At the time these financial statements were finalized, draft legislation modifying the Canada Pension Plan had been tabled before the House of Commons.

9. Contingencies

At March 31, 1997, there were 26,131 (15,231 in 1996) appeals relating to the payment of CPP pensions and penefits. Claims for these appeals could reach a maximum of \$31 million (\$26 million in 1996).

A number of persons who have not applied for a disability benefit, but who are potentially eligible, are being assisted by their respective provinces to secure

their entitlement. Estimated unpaid retroactive entitlements related to these potential claims at March 31, 1997 amount to \$22 million (\$19 million in 1996).

Any claim resulting from the resolution of these appeals or from retroactive entitlements will be accounted for as an expenditure of the period in which the claim is paid.



Annual Report of the Canada Pension Plan (CPP) Advisory Board for the year ended March 31, 1997

Mandate and Role

The Advisory Board is a statutory body established under Section 116 of the Canada Pension Plan (CPP). The role of the Board is to review the operation of the Act, the state of the Canada Pension Plan Fund, and the adequacy of coverage and benefits under the Plan. The Board reports the results of its findings and makes appropriate recommendations to the Minister responsible for the Canada Pension Plan.

Composition

The Advisory Board is to consist of not more than 16 members appointed by the Governor in Council to represent employees, employers, self-employed and the public. The current Board has a full complement of sixteen members – the last two appointments were in August and September, 1996. The Board membership is listed at the end of this report.

Board Activities

The Canada Pension Plan Advisory Board met three times during 1996.

At the Spring session, held in Ottawa on June 18 and 19, 1996, the Board reviewed the annual reports of the government departments and agencies dealing with the various aspects of the CPP. Presentations were given to the Board by the Chief Actuary on Financing alternatives for the Plan; an overview of the functioning of the Auditor General's

office given by the Assistant Auditor General and by ISP officials who provided updates on program direction and on CPP Consultations.

A draft set of conflict of interest principles specific to the particular situation of the CPP Advisory Board was presented to the Board. The principles, drawn up on the basis of an earlier presentation to the Board by Howard Wilson of the Office of the Ethics Counselor, were accepted by the Board as information with further discussion planned after the members review the document in detail.

The fall meeting in Québec City on October 21 and 22, 1996, focused on a number of items. As part of this, the Board and senior staff of the QPP were invited to a lunch and information exchange on future directions of the Plans. Jean-Claude Ménard, Chief Actuary for the QPP, presented an overview of the QPP reform proposals. There was also a presentation on the proposed management strategy for the disability program developed in response to the Auditor General's report as well as the program evaluation. ISP officials were on hand to give an update on:

- Redesign;
- the appeals structure and process;
- the communications strategy for the CPP; and
- an update on proposed legislative changes.

A special meeting of the Advisory Board was held December 9, 1996 in Ottawa to provide the members with the opportunity to review in detail the proposed options for reforms to the CPP. Fourteen of the sixteen members participated in this one-day review and discussion.

Board Reports

- 1. The Report of the Sub-Committee on the CPP Consultations was approved at the spring Board meeting and forwarded to the Minister in July, 1996 along with two minority statements. The mandate of this committee was to review the document entitled, An Information Paper for Consultations on the Canada Pension Plan.
- 2. The Board's report entitled *Report*On Special Meeting-Canada Pension

 Plan Advisory Board outlines the

 Board's recommendations on the

 proposed reform options for the CPP.

 This report, compiled as a result of
 the special December 9, 1996 meeting,
 was subsequently presented to Minister

 Pettigrew by the Chairman of the

 Advisory Board, Dr. Léo Paul Landry.

Committee Activity

Standing Audit Committee

Terms of Reference: to protect the CPP Account through periodic and continuing review of all administrative costs charged to the CPP Fund.

The members of the Committee and representatives of CPP Administration were present at a conference call on October 4, 1996. As all four members were named to this committee in 1996 this meeting served:

 to update the new committee members on changes made to annual audit reports on the

- costs of services provided to the CPP by various other gov ernment departments;
- to review the annual audit reports for 1995-96 on the administrative costs of those various areas; and
- review the Auditor General's Report on the CPP Account.

Marcel Grand Maître, Chairman of the Audit Committee, prepared a report on the CPP audits which he presented to the Board at the fall meeting.

Questions were raised by the Audit Committee on the "mispayment" section of the Auditor General's report. The Director General in charge of ISP Redesign responded to these concerns in his presentation to the Board at the fall meeting by outlining how the new technology would be better equipped to deal with this problem in the future.

Future work planned by this committee was to see them become involved in providing comments on the scope of the 1997-98 audits, such as the Seniors Audit and the government-wide audit on Systems under Development.

Standing Communications Committee

Terms of Reference: to serve as a liaison; to serve as an advisory resource; to audit the communication activities of ISP and other government departments regarding the CPP; and to report to the CPP Advisory Board on its activities.

Five Board members were appointed to this committee at the June, 1996 meeting, but no formal meetings took place.

Sub Committees:

Sub Committee on Appeals

A group of five Board members agreed at the fall Board meeting to take on a study of the CPP appeals process. This study was to feed into the departmental review on this topic. No meetings have taken place.

Sub Committee on the CPP Consultations

This sub committee completed their review on the Information Paper for Consultations on the Canada Pension

Plan and majority and minority reports were submitted to the Minister in July, 1996.

CPP Reform

Proposed legislation announced by the Minister of Finance in February, 1997 to reform the CPP repeals Section 116 of the legislation which is the provision for the CPP Advisory Board.

CANADA PENSION PLAN ADVISORY BOARD MEMBERSHIP

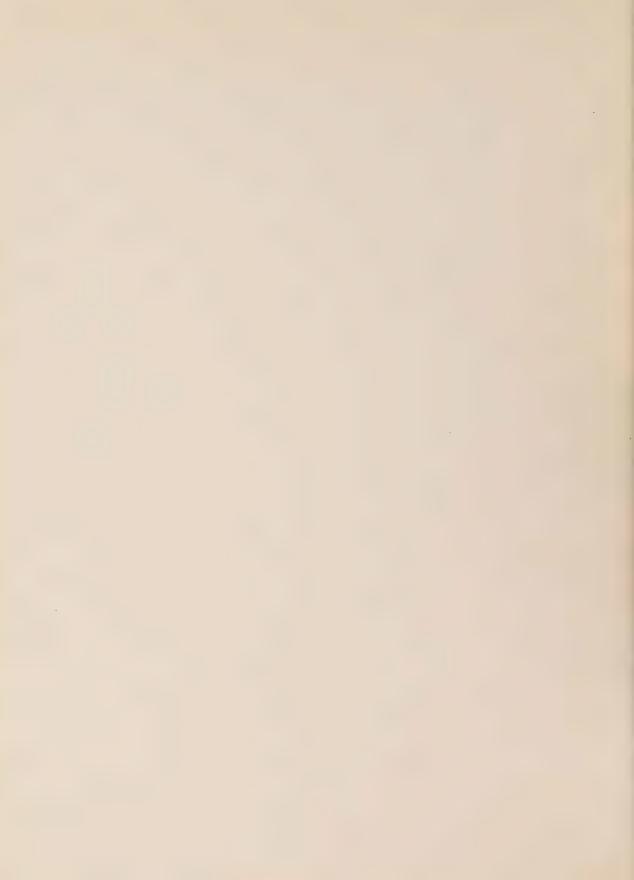
Landry, Léo-Paul (Chairman)	Appt: 23-Jan-1996	Ottawa, Ontario
Anderson, Barry D	Appt: 17-Sept1996	Gibsons, British Columbia
Baldwin, Robert (former member and Chair 1977-1986)	Appt: 23-Jan-1996	Ottawa, Ontario
Bujold, P. Anne	Appt: 4-Jun-1996	Bathurst, New Brunswick
Callaghan, P. Louis	Appt: 7-Aug-1996	Charlottetown, Prince Edward Island
Cook, Joan	Appt: 4-Jan-1996	St. John's, Newfoundland
Grand Maître, Marcel	Appt: 4-Jan-1996	Aylmer, Quebec
Jones, Frank D.	Appt: 4-Jun-1996	Edmonton, Alberta
Marshall, Victor	Appt: 4-Jan-1996	Etobicoke, Ontario
Matthews, Colleen	Appt: 4-Jun-1996 Resigned 13-Jun-1997	Regina, Saskatchewan

Nikias, Vangelis	Appt: 4-Jan-1996	Milton, Ontario
Regan, Joseph (Joe)	Appt: 4-Jan-1996	Willowdale, Ontario
Scott, Carolyn	Appt: 4-Jan-1996	Eastern Passage, Nova Scotia
Simpson, Allan J.	Appt: 23-Jan-1996	Winnipeg, Manitoba
Townson, Monica	Appt: 4-Jan-1996	Toronto, Ontario
Vidal, Jean-Pierre	Appt: 23-Jan-1996	Montréal, Quebec









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Annual Report of the Canada

Plan



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Produced by Human Resources Development Canada's Income Security Programs Communications Unit

www.hrdc-drhc.gc.ca/isp

If you require additional copies of this annual report, please contact:

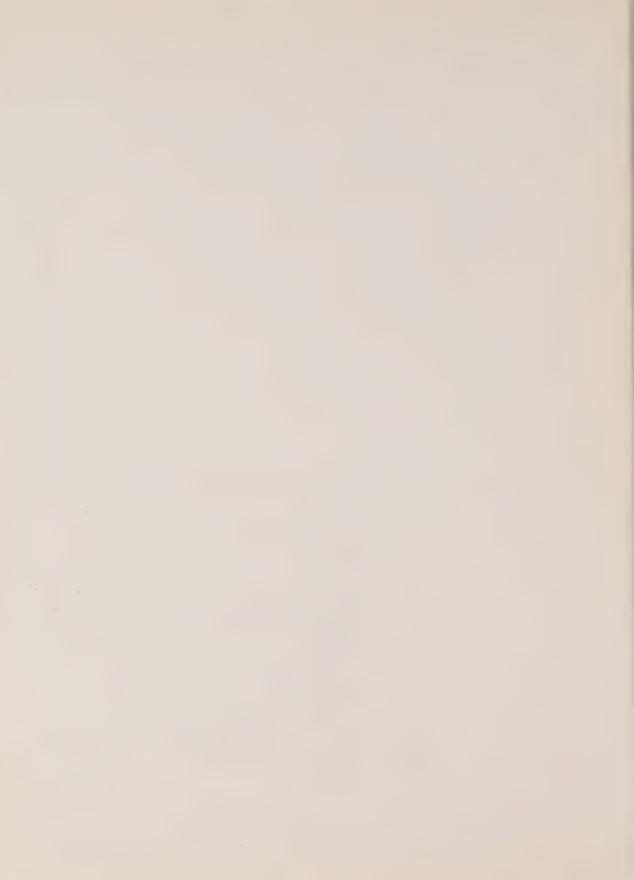
Public Enquiries Centre Human Resources Development Canada 140 Promenade du Portage Hull, QC K1A 0J9

Tel.: (819) 994-6313 Fax: (819) 953-7260

Aussi disponible en français sous le titre Rapport annuel du Régime de pensions du Canada 1997-1998

For information about the Canada Pension Plan, please call free of charge:

1-800-277-9914 (English) 1-800-277-9915 (French) 1-800-255-4786 (for calls using a TTD/TTY device)



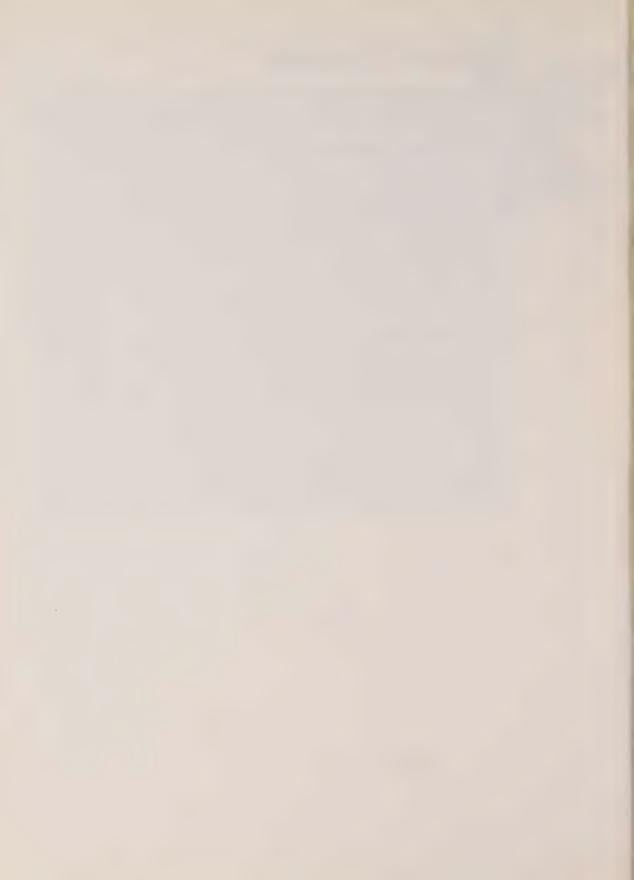
His Excellency The Govenor General of Canada

May it please your Excellency:

We have the pleasure to submit the Annual Report of the Canada Pension Plan for the fiscal year 1997-1998.

Respectfully submitted,

Pierre S. Pettigrew



About the Canada Pension Plan

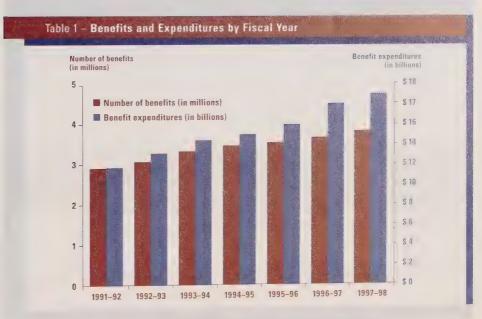
A Measure of Income Protection

The Canada Pension Plan (CPP), which began in 1966, provides benefits to contributors and their families. The CPP covers employed and self-employed persons between the ages of 18 and 70 who have a minimum level of earnings in a calendar year. The Plan operates in every province and territory, except Quebec, which operates a similar pension program, the Quebec Pension Plan. The benefits and provisions under the Plan include retirement pensions, disability, survivor and death benefits, and services under the CPP national vocational rehabilitation program. Benefits are increased each year in January to reflect increases in the average cost of living, as measured by the Consumer Price Index.

The CPP is self-supporting and is a separate fund from general revenue in the Accounts of Canada. It is financed through mandatory contributions from employees, employers and self-employed persons, as well as through earnings on the investments of the Canada Pension Plan Investment Fund. Changes to the legislation governing the general level of benefits. the rate of contributions, or the investment policy require an Act of Parliament and the agreement of at least two-thirds of the provinces having not less than twothirds of the population. In addition, changes of this kind require two years notice before coming into force unless such notice is waived by the provinces.

Benefits

Over 3.3 million people received 3.7 million benefits totalling approximately \$17.5 billion during the fiscal year 1997-98.



Contributions

Contributions to the Plan are compulsory and are based on employee earnings exceeding the Year's Basic Exemption (YBE) up to a ceiling known as the Year's Maximum Pensionable Earnings (YMPE). The YMPE is linked to the average Canadian wage and is adjusted annually. The YBE remained at \$3,500 in 1997 and in 1998; the YMPE increased from \$35,800 to \$36,900 in the same period. Contributions cannot be made after age 70, after a contributor begins to receive a CPP retirement pension, or while an individual is receiving a CPP disability benefit.

Marie Company of the	Section 1997	OF STREET, STR	1 1 1 1 mm
Table 2 - F	lmount c	IT YMPE	and YBE

	YMPE	YBE			
1997	\$35,800	\$3,500			
1998	\$36,900	\$3,500			
1999	\$37,400	\$3,500			

From 1966 to 1986, the contribution rate was 1.8 percent each for employees and employers with the self-employed paying 3.6 percent of their earnings subject to the yearly maximum amounts. The contribution rate began to increase in 1987 with a combined employee-employer increase of 0.2 percent for 1987 to 1991 and again for 1992 to 1996.

The current rates in 1998 are 3.2 percent for employees, 3.2 percent for employers with the self-employed paying 6.4 percent.

Contributors paid about \$12.8 billion into the Plan during 1997-98. Total investment earnings on CPP assets are \$3.95 B. As of March 31, 1998, the Canada Pension Plan Account held approximately \$36.7 billion.

Contributions are collected by Revenue Canada on behalf of the CPP.

Retirement Pension

Eligibility

- Following the contributor's 60th birthday
- If under age 65, the month after the contributor has completely or substantially stopped working

Benefit Rates

- Based on the individual's contributions paid into the Plan
- Benefits actuarially adjusted by
 0.5 percent for each month the contributor is over or under 65 at the
 commencement of the pension (This
 adjustment is made to reflect a longer
 or shorter period of time that a person
 receives their retirement pension)

Table 3 -	Maximum	and Average Reti	rement Pen	sion Amounts	Payable -
	- Balanca Riversida		The state of the state of	- Annual Control	

Age benefit begins	Maximum amount payable 1997	Maximum amount payable 1998	Maximum amount payable 1999	Average amount paid March 1997	Average amount paid March 1998
Age 65	\$736.81	\$744.79	\$751.67	\$417.79	\$417.66
All ages				\$400.21	\$408.55

• Maximum adjustment is 30 percent

Retirement Pension – Facts and Figures

Retirement pensions represent 66 percent of the volume of total benefits processed and 67 percent of the dollar benefit amount paid out by the CPP.

Table 5 illustrates that the percentage of new retirement beneficiaries choosing to receive their benefits before age 65 has increased over the last few years and stands at 63 percent for 1997.

Assignment of Retirement Pensions

In certain circumstances, spouses in a continuing marriage or common-law relationship can receive an equal share of the retirement pension earned by both parties during their life together. Both must be at least 60 and have applied for their retirement pensions.

Table 4 - Number of Retirement Pensions and Annual Expenditures

Year ending March 31	Number of benefits (in thousands)	Number of new benefits	Benefit expensitures (in millions)		
1993–94	2,141	176,308	\$9,322		
1994-95	2,231	178,094	\$9,912		
1995–96	2,321	180,998	\$10,531		
1996-97	2,404	175,706	\$11,179		
1997-98	2,489	181,009	\$11,827		

Table 5 – New Retirement Beneficiaries Electing Early Denefits (as a percentage of new beneficiaries)

Year	Age 60	Age 61-64	Total <65	At age 65	>65	
1992	31	29	60	35	5	
1993	32	29	61	34	5	
1994	34	29	63	32	5	
1995	35	26	61	34	5	
1996	37	26	63	32	5	
1997	38	25	63	32	5	

Table 6 — Percentage of New Retirement Beneficiaries in 1998 by Age Groups

Age	
60	40.2%
61-64	23.2%
Total <65	63.4%
65	31.4%
>65	5.2%

Disability Benefits

Eligibility

Disability

- To qualify contributors must
 - be disabled according to
 CPP legislation and
 - be between the ages of 18
 and 65 and
 - meet minimum contributory requirements

Children's

- Paid on behalf of the dependent children of the disabled beneficiary if
 - children are less than age 18 or
 - between 18 and 25 and in full-time attendance at school or university

Benefit Rates

Disability

- Consists of a flat-rate amount and an amount based on the level of contributions of the applicant
- At age 65, a disability benefit is automatically converted to a retirement pension

Children's

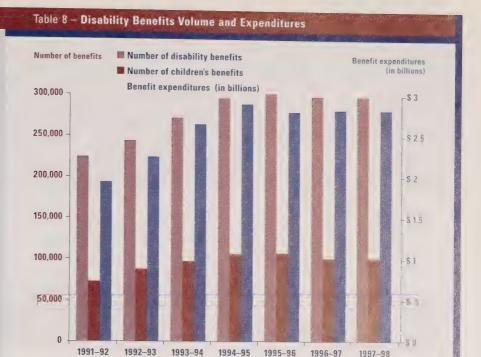
- Flat-rate monthly benefit paid on behalf of the dependent children of the disabled contributor
- Children may receive a maximum of two child's benefits

A contributor is considered disabled under the CPP when the physical or mental condition is both severe and prolonged. "Severe" means that the person is prevented from working regularly at any job. "Prolonged" means that the condition is long term or may result in death.

The maximum and average amounts payable for 1997 and 1998 are presented in Table 7.

Table 7 - Maximum and Average Disability Benefit Amounts Payable

Type of disability benefit	Maximum amount payable 1997	Maximum amount payable 1998	Maximum amount payable 1999	Average amount paid March 1997	Average amount paid March 1998	
Disability	\$883.10	\$895.36	\$903.55	\$664.16	\$674.53	
Children's (flat-rate)	\$166.63	\$169.80	\$171.33	-	-	



Year ending March 31

Disability Benefits - Facts and Figures

Disability benefits represent 11 percent of the volume of total benefits processed and 16 percent of the dollar benefit amount paid out by the CPP.

Survivor Benefits

Eligibility

Survivor

- The deceased must have made a minimum amount of contributions to the CPP
- The common-law or legal spouse of the deceased contributor may be eligible for a survivor pension
- In determining eligibility and the rate of payment, factors considered are
 - age of the surviving spouse
 - whether or not the spouse is disabled
 - whether or not the spouse has dependent children of the deceased contributor

Children of deceased contributor

- The natural, adopted, or child in the care and control of the deceased contributor, at the time of death, may be eligible for the children's benefit if
 - less than age 18 or
 - between 18 and 25 and in full-time attendance at school or university

Death

 Paid to the deceased contributor's estate or the person responsible for the funeral expenses

Benefit Rates

Survivor

- Only one survivor's pension payable to the surviving spouse
- If widowed more than once, the larger of the entitlements is paid

Children of deceased contributor

- Flat-rate monthly benefit paid to the dependent children of the deceased contributor
- Children may receive a maximum of two child's benefits.

Death

- Lump-sum payment equal to six months' worth of the deceased contributor's "calculated" retirement pension, up to a set maximum for the year of death
- As of January 1, 1998 the maximum death benefit is equal to \$2,500.

Table 9 – M	aximum and /	Average Survi	vor Benefit An	nounts Payab	le
Type of Survivor benefit	Maximum amount payable 1997	Maximum amount payable 1998	Maximum amount payable 1999	Average amount paid March 1997	Average amount paid March 1998
Spouse <65	\$405.25	\$410.70	\$414.46	\$300.00	\$305.85
Spouse >65	\$442.09	\$446.87	\$451.00	\$229.40	\$236.16
Children (flat rate)	\$166.63	\$169.80	\$171.33	-	-
Death	\$3,580.00	\$2,500.00	\$2,500.00	\$2,611.45	\$2,353.62

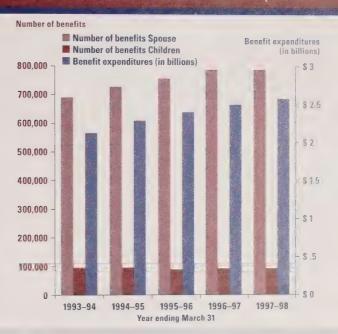
Survivor and Children's Benefits – Facts and Figures

Survivor benefits represent 23 percent of the volume of total benefits processed and 17 percent of the dollar benefit amount paid out by the CPP.

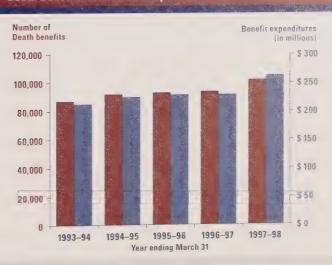
Death Benefits - Facts and Figures

Death benefits represent less than one percent of the volume of total benefits processed and of the dollar benefit amount paid out by the CPP.











Departmental Responsibilities

Human Resources Development Canada

- provides clients with information about CPP
- determines eligibility for benefits
- maintains records and accounts with supporting systems
- provides contributors with information on their earnings, contributions and projected benefits
- manages an appeals process which includes support to the Review
 Tribunal and Pension Appeals Board
- assigns Social Insurance Numbers to individuals and maintains a Social Insurance Register of those names and numbers
- negotiates and administers International Social Security Agreements
- detects overpayments and manages accounts receivable

Revenue Canada

- administers Part I of the CPP, which provides for the collection of contributions from employees, employers and the self-employed
- provides rulings regarding CPP coverage and contribution requirements
- provides contributor information to the CPP
- reconciles T-4s and investigates any discrepancies
- maintains records for remittances, assessments and deposits funds
- manages an appeals process on contribution related matters
- provides system and administrative support

Public Works and Government Services Canada

- issues payments to CPP clients
- develops, maintains and operates supporting information systems to process information on contributor earnings, benefit payments, and program statistics
- provides accommodation and property management

Department of Finance

- responsible for leading negotiations
 with the provinces and all other aspects
 of the statutory review of the CPP,
 which result in major changes to the
 Plan, including contribution rates
- manages the CPP Investment Fund by investing monies not immediately needed to pay benefits in securities of provincial and territorial governments, provincial Crown agencies, or the Government of Canada, in accordance with the provisions of the CPP
- after April 1998, funds not immediately needed to pay for benefits will be managed by the CPP Investment Board

Office of the Superintendent of Financial Institutions

The Chief Actuary

 prepares the actuarial reports for tabling by the Minister of Finance in Parliament on the projected financial status of the CPP Account every three years in accordance with the CPP legislation

- prepares actuarial estimates on proposed changes to the Plan's provisions for HRDC, the Department of Finance, and provincial governments
- calculates the effects on the CPP
 Account of proposed amendments to the CPP once a Bill has been introduced, in accordance with a request received from the Minister of Finance

Special Initiatives

Changes to the CPP

In December 1997, Bill C-2 received Royal Assent. This bill was designed to ensure the sustainability of the CPP.

The legislative changes were implemented with minimal effect on client services. Computer systems and processes were changed as required. Staff was trained and provided with the necessary information and tools to process the changes and to inform clients of these changes.

The changes enacted in Bill C-2 are the result of the latest statutory review of the CPP that the federal and provincial governments, as joint stewards of the plan, began in 1995. Contribution rate and benefit changes came into effect January 1, 1998 (contribution rates were increased retroactive to January, 1997), and new investment policy provisions were proclaimed April 1, 1998.

The new legislation reflects what Canadians said during extensive public consultations held across Canada in 1996 where the key recurring theme was that Canadians believe in the CPP and want it preserved. Most participants agreed that sustainability could be achieved by strengthening the Plan's financing, improving its investment practices, and moderating the growth in costs.

A Balanced Approach

In 1997, the legislated CPP contribution rate – shared between employees and employers – was 5.85 percent.

(Contributions were levied on earnings between \$3,500 and \$35,800.) Under the then existing legislated schedule, rates were to rise to 10.1 percent by 2016. However, the Chief Actuary of the CPP indicated that, without changes, the CPP fund would be depleted by 2015 and contribution rates would have to increase to 14.2 percent by 2030 to cover escalating costs.

Clearly, the CPP was not sustainable without some changes.

Federal and provincial ministers agreed on a three-part approach to restore the financial sustainability of the CPP and make it fairer and affordable for future generations by:

- moving to fuller funding by accelerating contribution rate increases now so that they should not have to exceed 10 percent for future generations;
- improving the rate of return on the CPP fund by investing it prudently in a diversified portfolio of securities at arm's length from governments; and
- slowing the growth in costs by tightening the administration of benefits and changing the way some are calculated.
 Together, these changes will bring the

contribution rate that will have to be charged in 2030, down from 14.2 percent to 9.9 percent. (See Table 12)

About three-quarters of the effort to get the contribution rate down to 9.9 percent was from contribution increases and about one quarter from changes to benefits.

When the CPP was introduced in 1966, it was financed on a partially funded basis. At that time, the prospects of rapid growth in real wages and labour force participation and low real interest rates favoured a low level of pre-funding and heavy reliance on pay-as-you-go financing. The current environment of slow growth in real wages and labour force participation, and high real interest rates favour a higher level of pre-funding. Under the new funding approach, the fund is expected to increase from about 8 percent of the total liabilities of the plan today to about 20 percent in 20 years.

Building up a larger fund – fuller funding – and earning a higher rate of return through investment in the market will help pay for the rapidly growing costs that will occur once baby boomers begin to retire. Accordingly, the CPP will move from pay-as-you-go financing to fuller funding to build a substantially larger reserve fund. The fund will grow in value from about two years of benefits currently, to about four or five years of benefits.

Pension obligations to contributions incurred up to now must be honoured. The 9.9 percent "steady-state" rate reached in 2003 will mean that future generations of contributors (together with their employers) will pay 6.1 percent towards their own benefits, and 3.8 percent toward past commitments. Building up the fund before the baby boomers begin to retire through the steady-state rate will ensure that the burden of the liability of past com-

mitments is shared fairly by current and future generations.

Annual expenditures on benefits are projected to be 9 percent lower by 2030 than they would have been without the changes made by Bill C-2. A number of these changes came into effect January 1, 1998, including stricter eligibility for disability benefits, improvements in administration, and reduction in the maximum payment for the death benefit.

Improvements to Client Service

In late 1997-98, many improvements to meet service commitments were introduced. These included directing overflow call volumes to staff at mail processing centres, increasing staffing, encouraging clients to call during nonpeak periods, and installing additional equipment. Interactive voice response services were expanded in all major telephone centres. Emphasis has been put on reporting, quality, performance and increased use of part-time staff.

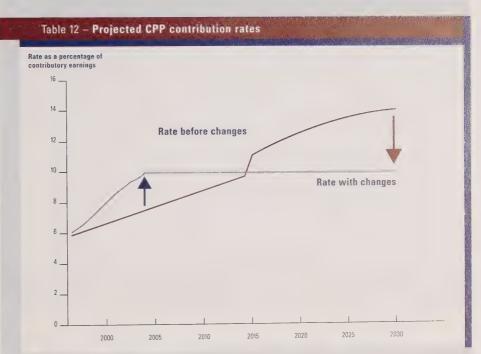
Income Security Programs (ISP) Redesign

Managing ISP redesign has been the focus of HRDC in recent years. It was a significant part of HRDC's efforts to continuously improve service to clients. ISP redesign produced numerous service delivery improvements and efficiency gains through modernization of systems and older technology. These improvements included the introduction of an interactive voice response telephone service, presumptive applications to potential clients in advance of their eligibility, installation of new equipment, and training of staff. The system

for CPP business was to be delivered by July 2000. An independent third-party report stressed the danger of this implementation date given the challenges presented by the year 2000 impact on systems. As a result of this risk assessment, the decision to stop further development was made in late 1997. Instead, the current Legacy System will be modified to support changes in the CPP legislation using a number of redesign products and will be year 2000 compliant.

The Technology Solutions Directorate was created in late 1997-98. This group began to develop a strategy to ensure the continuing effective delivery of benefits and to identify possible new business strategies and technology solutions.

To date, work continues in all of these areas.





Departmental Reports for the Year

Human Resources Development Canada

Human Resources Development Canada (HRDC) delivers the Canada Pension Plan to Canadians through a cross-country network of over 300 points of service. The cost of administration of these services by HRDC was about \$206 million in 1997-98.

Meeting Canadians' Day-to-Day Needs

HRDC provides Canadians with information about the CPP program, maintains records and accounts on clients and contributors, determines benefit entitlement and continuing eligibility, and manages appeals and program integrity.

The Department's Social Insurance Registry assigns Social Insurance Numbers to individuals and maintains the register of those numbers.

HRDC also negotiates and administers Social Security Agreements for clients living outside Canada and for new Canadians.

Serving CPP Clients

The HRDC delivery network offers clients a choice of how they can do business with the department. Services are offered through in-person service, by telephone and by mail. Information on benefits is also available through the Internet and at self-service electronic kiosks located at convenient sites across the country. Services are coordinated and supported by regional offices in each province and by national headquarters.

Over the past several years, the department encouraged clients to do their business by telephone. This had the desired effect. The aim was to level out the workload through improved scheduling and to reduce client waiting times. As a result, there was a significant decline in the number of clients served in person with a corresponding increase in clients served by telephone. However, as illustrated in Tables 13 and 14, 1997-98 showed a marked increase in both modes of service primarily as a result of legislative changes that came into effect in January, 1998.

Interviews, by type of benefit	1995–96	1996-97	1997-94
Pre-entitlement	122,677	71,445	157,567
Retirement	70,300	42,867	94,541
Survivor	52,114	31,436	69,329
Disability	46,494	28,578	63,027
Subtotal	291,585	174,326	384,464
Others: Credit Splitting Assignment Contributor Services Appeals Processing	17,677	11,431	2 5,211
Application Processing	36,012	20,005	44,119
Account Maintenance	134,273	80,018	176,475
Total	479,547	285,780	*630,279

Table 14 - Number of telephone calls to Phone Centres

Telephone Calls, by type	1995-96	1996-97	1997-98	
Pre-entitlement	638,888	820,130	1,095,932	
Application Processing	297,464	384,436	513,718	
Account Maintenance	931,893	1,204,566	1,609,651	
Contributor Services	121,768	153,774	205,488	
Total Telephone Calls	1,990,013	2,562,906	3,424,789	

Keeping The Records

Contributor Information Management (CIM) maintains the 23.2 million records of earnings and contributions to the Canada Pension Plan for the Canadian work force between 18 and 70 years of age.

During 1996–97, significant progress was made in identifying the proper owners of earnings and CPP contribution records that were held in unidentified files. Many of the records in these files are missing from contributor accounts because of errors in their Social Insurance Number or surname. Canada Pension Plan has been working steadily with Revenue Canada, the Régie des rentes du Québec, Revenu Québec, and the Social Insurance Registry of HRDC to assign the earnings and contributions in the special files to the proper clients' accounts. Between April 1997 and March 1998, arrears payments in the amount of \$29.4 million were made as a result of changes in individual records of earnings.

Similarly, the earnings of fewer selfemployed Canadians were posted to these special files, due to the same partnership arrangements. Only 385 entries belonging to self-employed clients were put in the special files between March 1996 and March 1998.

Informing Clients

CPP contributors are informed about the Canada Pension Plan through a personalised Statement of Contributions and CPP outreach information booths at various trade shows and exhibitions. During 1997-98 over 1.5 million personalised Statements of Contributions were mailed to CPP contributors between the ages of 35 to 39 and 55 to 64.

The outreach service more than doubled its direct client contact during 1997-98. At various booths across the country, more than 9,800 contributor clients were given direct assistance and information on the Canada Pension Plan. In 1997–98, more than 4,300 personal Statements of Contributions were produced for clients at these shows.

The Social Insurance Registry, which maintains the Social Insurance Number registration program, works closely with the CPP administration, Revenue Canada and the QPP to ensure that the social insurance register has the most accurate information possible.

The number of Social Insurance Numbers issued during 1997–98 was 717,049, an increase from the 1996–97 total of 669,501. As of the end of March 1998, the total Social Insurance Numbers issued since the program began was 33,048,273.

Ensuring Program Integrity

In 1997-98, two reviews were planned by Control Initiatives with the aid of Treasury Board approved funding. The funding was approved contingent upon a minimum return on investment of 5:1 for each dollar approved. One was to examine a sample of retirement pensioners over 84 years of age, and survivor beneficiaries over 79. The other was to review CPP survivor beneficiaries where the payment system indicated that a benefit was being paid by the Quebec Pension Plan (QPP), but had not been assessed. This situation may result in a reduced benefit rate, or non-entitlement to CPP survivor benefits. Due to situations beyond our control, the CPP/OPP review could not be conducted.

The retirement +84 / survivor +79 initiative was aimed at confirming the existence of these beneficiaries, as well as providing an estimate of the payment inaccuracy rate of both populations based on the findings of the samples. The results indicate the extent of mispayment to the retirement +84 and the survivor +79 population in 1997 may have been as high as \$2.1 million and \$4.3 million respectively. The more probable extent however, would likely have been \$1.4 million (retirement) representing 0.36 percent of the total payout to this population, and \$2.9 million (survivor) representing 0.62 percent of the total payout to this population.

The Dollar Unit Sampling methodology was used to randomly select accounts to be reviewed for this initiative. The results are expressed as the best estimate of the range of possible errors and as the worst case scenario of the population's error rate 2.1.

In the fall of 1997, Treasury Board approved a further three-year funding plan for Program Integrity Control Initiatives.

All of the reviews, including the annual Random Review of CPP accounts, result in proposals presented to program administrators to reduce the occurrence of, or eliminate the cause of the error.

In 1997-98, 83 suspected fraud cases were referred to the RCMP for criminal investigation, involving a total value of \$2,067,955. Of these, 63 cases, involving a total value of \$1,893,243, related to a CPP disability benefit. Approximately \$409,675 was recovered in 1997-98, including CPP fraud cases from previous years.

Managing Accounts Receivable

ISP continues to manage closely Accounts Receivable. In 1997–98, HRDC Corporate Collection recovered \$8.9 million in cash repayments for which benefit overpayment had been identified. In addition \$22.4 million was withheld from current benefits, resulting in a total savings of \$31.3 million.

Systems Support

Business systems support ensures that the CPP application system operates effectively. In January 1998, major changes to the CPP legislation were successfully implemented. Also, as a contingency measure, work began in making CPP year 2000 compliant. In the fall of 1998, CPP systems were certified year 2000 ready. With the conclusion of ISP redesign, the work became more urgent in nature. The CPP Legacy System continued to be essentially frozen to all changes unless the changes were deemed essential, to accommodate legislated changes, correct mispayment situations or deal with emergencies affecting systems performance.

Within these limitations, work continued in order to:

• implement changes to the CPP legislation in January 1998;

- implement the single business registration number required by Revenue Canada for our earnings records;
- implement changes for a notional tax required by the Department of Finance:
- support the passing of information from the Legacy System to the rules-based reassessment system to ensure accuracy of information. (The rules-based reassessment system is an application which was designed to ensure a consistent decision-making process for the review of continuing eligibility to receive CPP disability benefits.);
- respond to requirements for a reporting data base to ensure the quality of business measurements.

The single greatest effort in ISP systems is to make our mission critical systems year 2000 compliant.

Work will continue in enhancing the interface with finance and administration to allow for the collection of interest on CPP overpayments and improving the use of the CPP systems in the regions.

Communicating with Clients

In 1997-98, the focus of CPP communication activities was two-fold: (1) ongoing communication with Canadians on the CPP, (2) informing Canadians about the changes to the CPP which came into force on January 1, 1998. To accomplish this, HRDC prepared and published updated versions of all CPP publications which are available at Human Resources Development Canada offices. In addition, a number of new communications initiatives were undertaken to support the CPP disability management strategy. These included preparing a disability presentation to be used in public education initiatives with partners and advocacy groups, and drafting two new

vocational rehabilitation brochures, an appeals brochure, and an information guide for partners about the CPP disability program.

The Department's ISP Outreach Program provides information to clients either directly or indirectly through partnerships. The program aims at improving public awareness and understanding of the benefits and provisions of the Canada Pension Plan and Old Age Security program.

The program has headquarters and regional components. Headquarters is responsible for overall program management, national partnerships with federal, provincial and private-sector organiztions and for providing functional support and guidance to regions. Regional representatives across the country are responsible for regional management of the Program and establishing partnerships with regional and community-based organizations. Activities include presentations, training sessions, attendance at trade shows, targeted mailings and client contact.

Some current partnerships:

- Nova Scotia Education Project
 partnership with the Nova Scotia
 Department of Education and Culture
 which is a pilot project aimed at introducing CPP into the Career and Life
 Management (CALM) course in high
 schools.
- Ontario Funeral Directors partnership with Ontario Funeral Services Board to improve service to CPP clients and families at a time of bereavement.
- New Brunswick CPP/Workplace
 Health Safety and Compensation
 Commission which resulted in a joint
 publication concerning CPP &
 WHSCC disability benefits.

Establishing Information Sharing and Reimbursement Agreements

The department continues to pursue opportunities for information sharing and reimbursement agreements between CPP and the provincial governments, municipal authorities and private insurers.

In 1997-98, there were 14 agreements in place with provincial governments in relation to information sharing and the reimbursement of retroactive CPP benefit payment to provincial authorities who have made social assistance payments to persons who subsequently were eligible for CPP benefits. Other agreements are presently being negotiated.

The 38 current agreements with private insurers allow them to be reimbursed for that portion of the disability benefit that would not have been payable had the client been in receipt of CPP benefits.

Changes to Legislation and Regulations

Bill C-2, An Act to establish the Canada Pension Plan Investment Board and to amend the Canada Pension Plan and the Old Age Security Act and to make consequential amendments to other Acts, being Chapter 40 of the Statutes of Canada 1997, received Royal Assent on December 18, 1997. Most major amendments to the Canada Pension Plan resulting from Bill C-2 became effective on January 1, 1998. The enactment established the Canada Pension Plan Investment Board and made amendments to the contribution, benefit and funding provisions of the Plan.

In addition, a number of minor changes included provisions dealing with the restricted cancellation of retirement benefits in favour of disability benefits, set-offs between Human Resources Development programs, and reimbursement to provinces, municipalities and

private insurers. The Canada Pension Plan has also been amended to modernize the protection of information provisions by creating a comprehensive information protection and disclosure code. New provisions added to CPP also provide new powers to investigate suspected fraudulent claims and to assess administrative penalties. These administrative penalties will come into effect upon an Order-in-Council.

In order to carry into effect the purposes and provisions of the amended CPP legislation, it is necessary to amend relevant Regulations. It is expected that minor regulatory changes will become effective in the spring of 1999.

Appealing a Decision

Individuals who are dissatisfied with a decision made on an application for CPP benefits have three opportunities to request a review of the decision. Close to 95 percent of all requests for review concern an application for disability benefits.

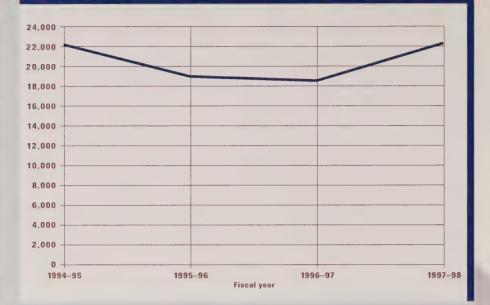
First Level Appeals involve a request to the Minister for a "reconsideration" or administrative review of a decision concerning a benefit or a division of pension credits. A request must be made to the Minister within 90 days of receiving the initial decision. A review of the file is then carried out by an adjudicator who was not involved in the initial decision.

Despite an 8.3 percent decline in the number of disability applications received in 1997-98, the number of reconsiderations rose 66 percent during the same period. (See Table 15)

In the same period, the number of benefits awarded at appeal rose slightly from 23 percent to 27 percent. (See Table 16)

The preliminary results of the CPP Appellant Profile Review provided information on the broad characteristics of the appellant population. The need to

Table 15 - Number of Disability First Level Appeals Received



obtain additional and regular information on the appellant population, and on grant and denial trends was identified as a priority for 1998/99.

Second Level Appeals, or hearings by a Review Tribunal, are available to individuals dissatisfied with decisions rendered at the reconsideration level. A Review Tribunal is an independent body that does not act on behalf of the Minister, the appellant or any other party to an appeal. Each Review Tribunal consists of three qualified persons selected by the Commissioner of Review Tribunals from a panel of 100 to 400 members who are appointed by Orders-in-Council. The chairperson is always a member of the legal profession. If a disability benefit is involved, as in over 95 percent of the cases heard, at least one of the other

members is a health care professional. Hearings are informal, closed to the public and usually held in or near the appellant's community. Table 17 provides an overview of the workload of Review Tribunals by fiscal year ending March 31, 1998.

About 8,000 hearings of the expected 9,000 hearings for 1997-98 were held. This was largely attributable to the shortage of Panel Members.

Approximately 7,900 cases outstanding at the end of 1997-98 represent about 8 1/2 months of appeals compared to 6 months for 1996-97. As of March 31, 1998, over 2,600 of the 7,900 appellants had been contacted and hearings arranged for April 1998 and onwards. A significant number of cases have

Table 16 - First I	Level Appeals – t	Grants versus l	Denials
--------------------	-------------------	-----------------	---------

	1994–95 April-Sept	1995–96 Oct-March	1996-97	1997–98	
Disability benefit granted	3,654	2,257	5,496	7,144	
Disability benefit denied	7,025	7,802	18,826	19,034	
Percentage of benefits awarded at appeal	35%	22%	23%	27%	

been delayed at the request of appellants or their representatives. It is expected that, in 1998-99, there will be some 9,000 – 10,000 appeals to Review Tribunals, and cases outstanding at year end will be reduced considerably.

A new computer system, an advanced booking process, enhanced production standards, and several other initiatives have been introduced to provide better service to clients and reduce costs per hearing.

Third Level Appeals are heard by the Pension Appeals Board (PAB), consisting of judges appointed by Order-in-Council. Six new members were appointed in December 1997. Board decisions are binding, and may be subject to judicial review by the Federal Court.

The increasing number of appeals at the first and second levels is having a significant impact on the caseload and backlog of unheard cases. The cases pending at March 31 have again almost doubled since the previous year.

Facing Charter Challenges

The CPP has been the subject of a number of challenges under the Canadian Charter of Rights and Freedoms. The Charter challenges against the CPP involve the provisions for survivor benefits, disability benefits and credit splitting. The major issues raised are whether or not survivor benefit provisions are discriminatory because same-sex partners are not entitled to survivor benefits; likewise, persons under 35 years of age, who are not disabled and have no dependent children are ineligible. One case is now proceeding through the courts while approximately 34 cases are in the CPP appeal process.

On September 25, 1997, the majority of the Pension Appeals Board upheld the Minister's position in that the definition of spouse under the CPP was contrary to Section 15 of the Charter but reasonably justified under Section 1. The appellant appealed that decision to the Federal

	1995–96	1996-97	1997-90	te increasi over previo
		A SHORT STATE		yanı
Cases for tribunal hearings	7,733	12,269	15,567	26.9
Appeals allowed	769	1,385	1,864	
Appeals dismissedHearings adjourned	2,715 122	4,744 265	5,839 329	
Total hearings held	3,606	6,394	8,032	25.6
Cases outstanding at year end	4,249	6.095	7.864	29.0

	NAME OF TAXABLE PARTY.	AND THE RESIDENCE OF THE PARTY	Charles VIVI AND SAN SORRESSES AND SAN
Description	1995-96	1996-97	1997-98
Workload – April 1st	589	1086	1982
Incoming workload	1106	1790	3070
Decision rendered (includes leave refused)	609	*894	1032
Cases pending at year end	1086	*1982	4020

Table 19 - CPP Benefits Under Social Security Agreements

Calendar year	Number of benefits in pay in month of December	Total benefits (in thousands
1996	3,868	\$11,246
1997	4,340	\$13,039

Court of Appeal. As for the age provisions governing the payment of CPP survivor benefits, on April 17, 1996, the Federal Court of Appeal ruled the age provisions do not discriminate contrary to Section 15 of the Charter. The appellant appealed to the Supreme Court of Canada and the Supreme Court heard the case on January 19, 1998. On March 25, 1999, the Supreme Court of Canada rendered a unanimous decision that the Canada Pension Plan does not discriminate against widows and widowers under the age of 45 on the basis of age.

Canada's International Social Security Agreements

Social security agreements protect the pension rights of persons who move from one country to another to live or work. The Canadian programs included in agreements are the Canada Pension Plan and Old Age Security.

The basic objectives of agreements are to:

- reduce or eliminate restrictions, based on citizenship, that prevent Canadians from receiving pensions from another country;
- permit continuity of social security coverage when a person is temporarily working in another country, and prevent situations where a person must contribute to the social security programs of two countries for the same work;
- make it easier to become eligible for benefits by adding together creditable periods under the schemes of two or more countries;
- reduce or eliminate restrictions on the payment of pensions abroad. As of March 31, 1998, Canada had

agreements in force with 33 countries. Agreements with Chile, Croatia, Grenada, Korea, Morocco, Saint Vincent, Slovenia, Trinidad and Tobago and Turkey had been signed, but were not yet in force. There were agreements under negotiation with Argentina, Israel and Uruguay. Table 19 outlines the number and amount of benefits paid under social security agreements for 1996 and 1997.

In 1996, the last year for which information is available, the total amount of foreign pensions that came into Canada from other countries exceeded \$1.5 billion. By contrast, only about \$336 million was paid in OAS and CPP-benefits to persons living outside Canada, a ratio of about 4.5:1 in Canada's favour. Specific to the social security agreements in force, the ratio of benefits coming into Canada versus those being paid out is 6.6:1.

Supporting Service Delivery

The services provided to the CPP from HRDC Corporate Services are:

- financial and administrative services including security and internal audit
- human resource services
- systems
- communications
- strategic policy including program evaluation
- · legal services

These services support operations across the country delivering the services to CPP clients and providing program management and direction.

Interface with the Quebec Pension Plan (QPP)

The CPP and the QPP meet regularly to discuss issues of common concern, particularly as related to the approximately 100,000 Canadians who contribute to both plans (called dual contributors). Agreements are entered into between the two administrations to regulate the flow of work, to deal with legislative changes or differences, and to address operational matters.

In 1997-98, discussions dealt mainly with ISP redesign and its impact on joint CPP-QPP operations, and proposed legislative changes to both plans. These discussions will continue in 1998-99 to ensure effective links and to deal with the operational impact of any CPP and QPP legislative changes.

Public Works and Government Services Canada

Public Works and Government Services Canada (PWGSC) issues payments on behalf of the CPP and provides support services through the operation of information processing systems. These systems contain information on contributor earnings, benefit payments and program statistics. The cost of these services was about \$17 million in 1997-98.

Accommodation services are also provided at a cost of about \$15 million.

Activities and Initiatives

In 1997-98, PWGSC issued 39.4 million cheques and direct deposit payments compared with 37.8 million in 1996-97 and 36.8 million in 1995-96.

The percentage of benefit recipients who have chosen direct deposit continues to grow as illustrated in Table 20.



Table 21 - Information Slips Issued

1995–96	3,536,684
1996–97	3,426,993
1997-98	3,607,396

During the 1997-98 fiscal year, 30.4 million payments were issued as direct deposit payments compared with 25.6 million in 1996-97.

A summary of tax information slips issued annually in February is presented in Table 21.

Revenue Canada

Revenue Canada (RC) administers Part I of the CPP legislation which involves the determination and collection of contributions from employees, employers and the self-employed. RC provides reports on the earnings and contributions of contributors as well as statistical and other information. These activities, performed on behalf of the CPP, are fully integrated in RC's revenue collection processes and make up about 6 percent of the total funds collected by RC.

The cost of these services is determined by a formula involving a detailed cost survey, conducted periodically, which measures direct, indirect, and overhead costs. In subsequent years, until a new survey is done, costs will be charged on the existing ratio after adjusting for changes in volume, and the wage/price index. In 1997-98, the cost of these services was about \$73.6 million.

Activities and Initiatives

Revenue Canada's main activity on behalf of the CPP involves the determination and collection of contributions and related activities. Approximately 96 percent of the CPP contributions collected are remitted by employers and employees, and about 4 percent by the self-employed. The amounts collected annually are displayed in Table 22.

Compliance/Enforcement

To complement the collection activity, RC assesses and verifies earnings and contributions, advises employers and employees of their rights and responsibilities, conducts audits, and reconciles reports and T4s submitted.

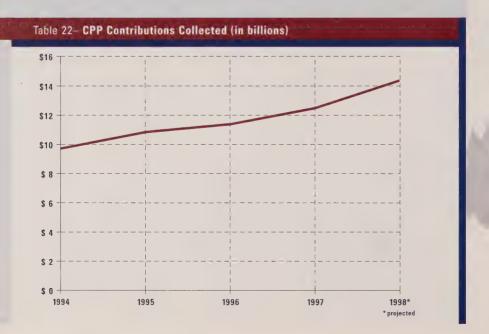


Table 23 – Audit Activity and Results				
	Period e 1996–97	nding March 1997-98	31 1998–99 (projected)	
Number of audits completed	64,083	56,982	57,630	
Number of audits resulting in assessments for CPP	38,445	34,190	34,580	

The compliance and enforcement process is divided into stages based on a progressive, risk-based approach ranging from computerized matching of data to on-site audits. As well, employers may request on-site assistance for clarification on payroll withholding requirements, or employees may seek advice if they feel their employer is contravening a related tax law.

Percentage of audits resulting

in assessments

Although most employers remit the proper amounts, some fail to comply, usually due to cash flow problems. When contacted by RC, these employers recognize that the employee trust deductions must be properly deducted, remitted and reported. Future compliance by these employers is generally good.

There are about 1.3 million employer accounts open of which approximately 900,000 are active at any one time. During 1997-98, 56,982 audits were conducted to resolve problems. The level of audit activity is summarized in Table 23. Like all other RC activities, an audit consists of not only reviewing the CPP deductions and remittances, but also verifying income tax and employment insurance deduction requirements.

Rulings

RC tax service offices and tax centres issue rulings, when requested or for enforcement purposes, on whether or not a worker is considered to be an employee

with pensionable employment and on earnings for which contributions are required. RC's goal is to complete these rulings within 30 days of receipt.

60%

60%

In 1997-98, RC made approximately 30,000 rulings.

Appeals

60%

Under CPP, individuals have appeal rights for rulings and assessments. RC encourages employers to contact the Problem Resolution Program Co-ordinator before resorting to the more formal appeal process. Appeals, administered by independent appeals staff in RC tax service offices, result from approximately 9.3 percent of the CPP rulings and assessments issued. For issues that remain unresolved, there is recourse through the judicial process ranging from the Tax Court to the Supreme Court of Canada.

Coverage and Extensions of Coverage under Social Security Agreements

In accordance with Canada's social security agreements with many countries, RC issues certificates of coverage and extensions of coverage relating to the CPP. In 1997-98, RC issued about 1,728 certificates of coverage and 142 extensions of coverage. In addition, foreign employers without a place of business in Canada, may apply to have coverage under the CPP for employment they provide in Canada.





In order to better serve clients, tax service offices also present seminars on various ruling-related aspects of the CPP such as "Contract of Service".

Record of Earnings

The number of incorrect entries transmitted by RC to CPP, as well as the number of entries held in the unidentified files at CPP, have been a priority of the Interdepartmental Quality Improvement Team (RC and CPP). The teams' continued efforts have resulted in the quality of transmitted information improving significantly. Through joint projects and ongoing programs, approximately \$68 million in contributions and \$4.5 billion in earnings are added to the records of more than 2 million clients each year.

Overpayments and Adjustments

For the year ending December 1997, an estimated \$211.2 million in CPP overpayments were processed. Some adjustments were also necessary on CPP contributions by self-employed individuals.

Overpayments and adjustments occur when an individual is employed at two or more positions at the same time during the year and is paying contributions for each employment. At year end, RC issues a refund since contributions are only paid up to a yearly maximum pensionable earnings amount regardless of the number of jobs held during the year. Table 24 presents the overpayments and adjustments processed by year.

Publicity

RC publishes information on the CPP in a variety of guides, booklets, pamphlets, circulars, and news releases. The "Index to Revenue Canada Services" and the pamphlet entitled "Alimony or Maintenance" are two examples. RC also publicizes CPP information through such activities as the Community Volunteer Income Tax Program and "Teaching Taxes".

Department of Finance

The Department of Finance is responsible for leading the statutory review of the CPP and negotiations with the provinces, which can result in major changes to the CPP, including contribution rates. During 1997-98, as in previous years, the Department also managed the CPP Investment Fund. CPP monies not immediately needed to pay benefits were invested in securities of provincial and territorial

governments, provincial Crown agencies, or the Government of Canada in accordance with the provisions of the CPP.

Following cross-Canada consultations in 1996, the federal and provincial governments reached agreement on proposed changes to the CPP in February 1997. This process culminated with the Canada Pension Plan Investment Board Act (Bill C-2, received Royal Assent December 18, 1997), under which the CPP Investment Fund will be managed at arm's length from government by the CPP Investment Board. The Board will invest in market securities to earn the best rate of return for contributors; passively in index-based securities for the first few years, and later in a diversified portfolio.

At March 31, 1998, the CPP had total assets of \$37 billion, or about two years worth of benefits. Under the financing provisions of the new legislation, this will increase to between four and five years worth of benefits over the next two decades.

Activities and Initiatives

A wide range of changes were made to the CPP as a result of the legislative changes to strengthen the Plan's financing, improve its investment practices, and slow the growth of costs. These changes are discussed in detail under Special Initiatives on page 13.

Office of the Superintendent of Financial Institutions

The Chief Actuary prepares Actuarial Reports for tabling in Parliament on the projected financial status of the CPP Account, prepares actuarial estimates on proposed changes to the Plan's provisions for HRDC, the Department of Finance, or provincial governments, and calculates the effects on the CPP Account of proposed amendments to the CPP whenever a Bill is introduced in Parliament.

Activities and Initiatives

In 1997-98, actuarial advice, cost estimates and long-term financial projections on numerous proposed changes to the CPP financing and benefit provisions were provided to HRDC and the Department of Finance. Most of these requests pertained to the periodic review of the CPP by federal and provincial governments. In September 1997, the Sixteenth Actuarial Report on the CPP, which projected the effects on the CPP Account of the changes contained in Bill C-2, was tabled in Parliament.

DYNACAN is a microsimulation model designed to provide demographic and economic simulations of the CPP for social policy purposes. Work on DYNACAN continued throughout 1997-98. Validation to ensure consistency of results with the aggregate outcome of the actuarial model was largely achieved and it is now considered ready for "prime time".

The cost of these services was about \$1.2 million in 1997-98.



Disability Initiatives

This chapter provides an update on the initiatives undertaken within the CPP disability program strategic management plan.

Background

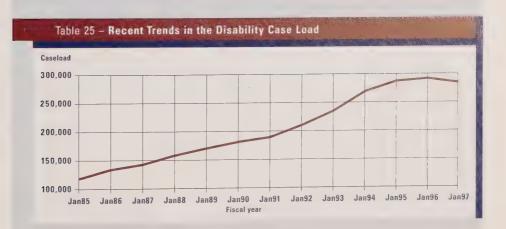
The Canada Pension Plan is the single biggest disability program in Canada. In 1997-98, the CPP paid monthly benefits to 284,000 disabled contributors and 100,000 children of disabled contributors. In 1997, more than \$2.7 billion was spent on CPP disability benefits. Of this, \$2.5 billion went directly to disabled workers and \$250 million was paid to their children.

In the early 1990s, the disability program experienced a growing caseload – a trend which began to reverse in 1996. In that year, the number of new benefits began to decline and the number of beneficiaries leaving the program increased. In 1997-98, the overall disability caseload dropped by 8.3 percent.

A number of pressures affecting the administration of the CPP disability program surfaced in 1997-98: a significant increase in the number of appeals; a new climate of co-operation which is providing opportunities for better linkages with programs within HRDC, as well as outside of the department, with Workers' Compensation Boards and private insurers; and an ongoing effort to improve the administration of the program through better management information, training, quality assurance and communications.

CPP Strategic Management Plan

A status report on the CPP disability action plan was forwarded to the Auditor General in April, 1998. The plan highlights the activities in 1997, namely; managing program costs, management information and performance measurement, reassessment, vocational rehabilitation, information sharing, the appeals process and client communications.



Improving Management Information

The Auditor General highlighted the need for better management information. During 1997-98, CPP set up a series of new reporting mechanisms. A trend analysis capacity was established in 1997 to monitor, assess, analyze and report on CPP disability trends. Two Disability Caseload Analysis Reports were produced in 1997 (January and September). A prototype trial to collect and analyze national statistics on initial disability determination, reconsiderations and Review Tribunal Appeals was concluded. The statistics are now collected monthly and shared with all regional offices. Finally a Management Information Framework was completed in late 1997. A committee was established to identify the framework for the collection of data to allow for strategic, causal and impact analysis, long range planning, statistics gathering, sampling and monitoring. In addition, national workshops were held during 1997-98 to identify longer-term performance measurement objectives for the administration of CPP disability.

Consistency in CPP Disability Adjudication

Prompt, high quality client service is vitally important to the delivery of the CPP disability program. In 1997-98, a major initiative was launched to review consistency in the adjudication of disability applications. The objective was to provide feedback to operational managers on consistency in the disability adjudication process, and to identify best practices and good business process which result in consistent eligibility determination. The review was conducted by a national/regional team using consistency tools developed specifically

for this purpose. A national forum was held in November 1997 to exchange results and to identify training and coaching needed by regional staff involved in disability adjudication.

Client Service

The speed of service to clients applying for disability benefits continues to be a focus for administrative improvements. Determining eligibility on medical grounds is complex work. All medical and contributory information must be available in order to make a decision that reflects the provisions in the legislation. It is not unusual for several months to pass while CPP staff make (and often repeat) attempts to get the required basic medical information. Because the responsibility is on the client and/or their doctor to provide the information requested, progress in obtaining information is not always within CPP's control. A number of initiatives were undertaken to improve the process for getting "capacity to work" information at the time of the initial application.

In the fall of 1997, the initial disability application was amended in order to ensure the physician's requirement to provide copies of test results which would objectively substantiate "incapacity to perform work". Research has also begun to assess the feasibility of using functional capacity assessments for this purpose.

To support the monitoring of quality decision-making, the rules-base system was developed as a sub-system of the adjudication system. Rules were developed for non-medical eligibility for disability benefits.

Table 26 – Reassessmer	Savings an	d Overpayments
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No. of Persons	Year ending March 31	Number of decisions	Number of benefits ceased	% of benefits ceased	*Annual savings	Overpayments
	1994–95	3,407	1,681	49.3	\$16,261,680	\$6,224,600
	199596	6,968	2,328	33.4	\$21,060,672	\$6,033,510
	1996–97	14,036	2,633	18.8	\$24,353,940	\$12,808,696
	1997-98	11,833	2,985	25.0	\$27,601,848	\$23,368,933

^{*} Based on actual benefit rates for 12 months

The Reassessment Program

CPP regularly reassesses clients to ensure that only those eligible continue to receive benefits. There are several triggers which prompt a reassessment. In some cases, when a client is granted a disability benefit, there are indications that there might be improvement in the future which would allow the client to re-enter the work-place. Third parties may tell CPP that clients have already returned to work. CPP also receives earnings information in cooperation with Employment Insurance and from Revenue Canada.

In 1997-98, the emphasis was placed on making the reassessment system more efficient and effective. New tracking mechanisms help to identify those who most likely may not continue to be eligible for disability benefits. New prescheduled reassessments were given a high priority. A total of 5,481 decisions were made in 1997-98 on accounts with a prescheduled trigger. There are now four types of prescheduled triggers being tracked ensuring that new prescheduled reassessments are done in a timely manner.

On average, about 25 percent of reassessments result in the cessation of benefits. In 1997-98, 11,833 reassessment cases were finalized resulting in an estimated annual savings of \$27.6 million to the CPP.

The number of reassessment decisions made in 1997-98 was lower than in 1996-97 due to the growing complexity of cases requiring reassessment. In addition, staff was temporarily reassigned to help ensure faster service to new applicants.

Prior to 1997-98, the branch had difficulty in estimating disability overpayments. To address this difficulty, a tool was developed to improve the medical assessment of cases selected in the reassessment random review and the use of this tool may be expanded to other areas of disability assessment.

The Vocational Rehabilitation Program

Following a successful national pilot project, CPP established a new vocational rehabilitation program targeted to those clients who are medically able and want to return to work. The program operates on a case management model with services provided by private-sector vocational rehabilitation specialists. CPP works with the client to develop an individual return to work plan which can include vocational placing and assessment, skills up-grading and assistance with job search.

A national/regional planning committee managed the establishment of the vocational rehabilitation program as part of the regional delivery of the CPP disability program. An evaluation framework was developed, policy guidelines completed and the Rehabilitation Case Management System (RCMS) was implemented regionally. The vocational rehabilitation program began operation in Manitoba, Ontario and Nova Scotia in the third quarter of 1997-98, and was fully operational in all regions by mid-1998.

Partnership, Information Sharing and Increased Co-operation

In order to better serve mutual clients, CPP is building partnerships with other disability programs. Changes to the CPP legislation as part of Bill C-2 allow for broader conditions for sharing CPP information with these programs.

During 1997-98, CPP initiated contact with all Workers' Compensation Boards to indicate interest in developing information-sharing agreements. These agreements will allow for identification of areas for administrative streamlining, providing joint service and undertaking cooperative efforts to encourage re-employment thereby providing seamless service to mutual clients. Several pilot projects are also underway with private insurers to test the effectiveness of joint case management and sharing client information.

Improving the Appeals Process

In 1997-98, a broad review of the appeals process was initiated to identify opportunities for longer-term systemic reform. A discussion paper outlining proposals for changing the structure of the appeals process was completed in February, 1998.

CPP continues to work closely with the Review Tribunal and the Pension Appeals Board (PAB) to better coordinate and update management practices, improve client communications at all levels and look at other measures in an effort to reduce the length of time it takes to appeal a decision. Work was initiated in October, 1997 to identify improvements to the PAB process in order to better manage the increased workload.

To improve day-to-day operations, regional points of contact were set up between the office of Review Tribunals and the regional offices. The branch also improved its support to the Review Tribunal process by clarifying the role of the Review Tribunal representative and preparing a training plan. The first module of the learning framework was completed in March, 1998 and national workshops were held on case submission writing.

Various administrative improvements were implemented in 1997-98 at the Review Tribunal level of appeal including an advanced booking system for hearings; a new computer system to improve management reports and facilitate bookings; and enhanced office procedures to ensure clients receive Review Tribunal decision letters in a more timely manner.

Also during 1997-98, many initiatives were undertaken at the Pension Appeals Board to address the appeal backlog. Recent changes to the CPP legislation permit all PAB judges to make decisions on requests for Leave to Appeal to the PAB. Previously, only the Chair and Vice-Chair of the PAB could decide on applications for Leave to Appeal.

Communicating with CPP Disability Clients and Their Advocates

Studies indicate that many people are not well informed about the CPP disability benefit, the appeals process, how a decision is made and what information is required from the applicants and/or their physicians.

In 1997-98, several initiatives were undertaken to improve client communication:

Technical briefings on the CPP disability program were held with Members of Parliament and Senators and their staff in February, 1998. The sessions were well attended and focused on the appeals system and how it works. This national briefing was replicated in most regions.

- A new appeals booklet was developed and focus tested with clients and their advocates. The booklet fully explains the three levels of appeal, the documentation required and other pertinent information.
- Communications products were also produced to support the vocational rehabilitation program. Both the client and partner brochures as well as the client letters were evaluated through focus-testing with clients, service-providers and other interested groups.



The Canada Pension Plan Account

CPP Account

The CPP Account is established in the Accounts of Canada by the CPP to record the contributions, interest, pensions, benefits and administrative expenditures of the Plan. The authority to spend is limited to the balance in the Account. The Statement of Revenue. Expenditures and Balance of the CPP Account for the year ended March 31, 1998, with the previous year's statement as audited by the Auditor General of Canada, is presented on page 44. The Account's balance represents the excess of contributions and interest over benefits and expenditures accumulated since its inception in 1966.

The CPP Account, which is audited annually by the Auditor General of Canada, is a separate account in the Accounts of Canada. As of March 31, 1998, the balance in the Account of about \$36.7 billion equals 2.09 years' worth of benefits. These funds provide a reserve in the event of circumstances such as lower than expected contributions because of economic conditions or higher than expected benefit payments.

The CPP Account comprises an operating reserve and the CPP Investment
Fund. The operating reserve is maintained at a level to meet the anticipated benefit payments and administrative charges from the Account for the next three-month period. These funds may not be invested in provincial securities but earn interest on the average daily balance of the reserve. The interest paid on these funds is calculated by averaging the unweighted average yields at tender

on three-month Treasury Bills during the month the interest is paid, less one-eighth of one percent. During 1997-98, the average interest rate earned by the operating reserve was 3.53 percent or \$158 million. All funds in excess of this, as determined by the Minister of Finance, are invested in securities.

CPP Investment Fund

In accordance with the CPP legislation, funds not immediately needed to pay for benefits were invested in securities of the provincial and territorial governments, provincial Crown agencies, and the Government of Canada. All securities are carried at cost, are non-negotiable, and have a 20-year term or less, as fixed by the Minister of Finance on the recommendation of the Chief Actuary. The share of total CPP contributions credited to a province or territory during the preceding ten years determines the distribution of investments among the provinces and territories. Funds not accepted by the provinces as well as excess funds received from armed forces personnel and other employees outside of Canada were invested in Government of Canada securities. At March 31, 1998, the balance in the Investment Fund was \$32.4 billion with all securities held having a 20-year term.

Prior to maturity, these securities are redeemable in whole or in part if funds are needed to pay benefits, at the option of the Minister of Finance, who must give written notice six months before the proposed redemption date.

Interest

The interest rate on the securities was determined at the time of purchase by the Minister of Finance based on the average yield to maturity of all outstanding Government of Canada obligations with terms of 20 years or more. The Statement of Purchases, Disposals and Balance for the year ended March 31, 1998, as presented on page 45 summarizes the status of the Investment Fund as of March 31, 1998. In 1997-98, the Investment Fund earned about \$3.785 billion in interest, which was deposited in the CPP Account. Maturing securities are regularly redeemed with the principal and any outstanding interest reimbursed by the provinces and territories. In 1997-98, \$1.582 billion in securities bearing a weighted average interest rate of 9.1 percent matured and were redeemed. All interest and principal payments have always been paid by the provinces and territories when due.

Although no funds have been available to invest in 20-year securities since July 1992, some funds have been available on a periodic basis for short-term investments. As a result, short-term investments of \$1.009 billion were made during 1997-98.

Rates of Return

The Investment Fund will benefit from the high rates of return of securities currently held, which bear a weighted average annual return of 11.36 percent. Since these securities are 20-year government bonds, the Fund's average rate of return will remain above 10 percent for the next several years. These securities were bought in the early 1980s when interest rates were relatively high, and the rate of

return in the short term will therefore exceed the Fund's expected long-term, nominal rate of return of 7 percent. The long-term return will be earned by a more diversified portfolio of securities managed at arm's length from government (see "A New Investment Policy", page 39) and is higher than the rate that could be obtained by continuing the policy of investing only in government bonds.

Administrative Costs

The approximately \$312 million annual cost for 1997-98 to administer the CPP is shared among all departments responsible for delivering CPP services. Human Resources Development Canada (HRDC) accounts for the largest portion, \$206 million; Revenue Canada (RC) spends about \$75 million; Public Works and Government Services Canada (PWGSC) about \$30 million; the Office of the Superintendent of Financial Institutions (OSFI) about \$1 million; and the Department of Finance about \$500,000.

Costs are allocated to the CPP based on the costing principles approved by Treasury Board and included in the Memorandum of Understanding established with each department. The underlying characteristics of the costing principles are that the charges have a causal relationship to the CPP for their occurrence and are traceable.

As a ratio of costs-to-benefits-paid, administrative expenses represent 1.77 percent of the \$17.5 billion in benefits paid (1.75 percent of total expenditures). This ratio compares favourably with that of other pension plans. For example, large pension plans in the private sector had, on average, administrative costs equal to 5 percent of the total expenditures in 1996.

Table 27 – Summary of Actual and Estimated CPP Administrative Costs Forecast of Expenditures by Department/Branch – 1995-96 to 2000-01 (in thousands)

	ACTUALS		\$	FORECAST			S			
		1996-97	4	1997-98		998-99	y. 1	1999-00		2000-01
HRDC administration	e	143,727	•	189,700	6	247400	0	404.000	•	40.4.000
Revenue Canada	\$	69,814	\$	74,800	\$	247,400 75,800	\$	194,800 74,600	\$	194,800 77.000
PWGSC-Services	\$	14,841	\$	17,864	\$	14,000		14,000	\$	
PWGSC-Accommodation**	\$	12,407	\$	13,736		,	Ť	,	_	11,000
OSFI	\$	1,375	\$	1,100	\$	1,100	\$	900	\$	1,000
Finance			\$	500	\$	600	\$	600	\$	600
Total	\$	242,164	\$	297,700	\$	338,900	\$	284,900	\$	287,400

^{**}Starting in 1998-99 accommodation costs are included in HRDC as opposed to PWGSC to reflect inclusion of accommodation in the HRDC vote of budget.

Table 27 presents the administrative expenditure forecasts for the coming years.

The amount shown in 1997-98 and the subsequent forecasts for HRDC Administration costs have changed significantly from the 1996-97 CPP Annual Report due to Treasury Board approval of the ISP Omnibus Submissions during fiscal 1997-98.

The submission approved funding over a three-year period (1998-99 to 2000-01) to address the increasing workload and other internal and external pressures. These included:

- CPP legislative changes to ensure long-term stability and sustainability of the program
- maintaining and improving client telephone services, putting more emphasis on program integrity initiatives and enhanced performance measurement mechanisms, as well as establishing stronger headquarters-regional operational links.
- addressing the Auditor General's recommendation and the concerns of the general public to strengthen management of the CPP disability program; substantial resources were to be invest-

ed in the reassessments and vocational rehabilitation of clients, setting up a formal quality assurance program and increasing communications efforts with current and potential clients and with other disability program providers.

A New Investment Policy

Under the old investment policy, funds not required immediately to pay benefits were invested in non-marketable provincial government securities. Provinces paid interest at the federal long-term bond rate prevailing at the time that the bonds were purchased.

Under the new legislation, however, a new investment policy will secure a higher long-term rate of return on the substantially larger CPP fund, and better protect the fund under a variety of economic conditions. The larger CPP fund will be prudently invested in a diversified portfolio of securities in the best interests of contributors and beneficiaries. An independent Investment Board will make these investments at arm's length from governments.

Based on prudent assumptions, under the policy the CPP could secure an average long-run return of 3.8 percent a year above the rate of inflation, compared to 2.5 percent under a continuation of the old policy. A higher investment return on the fund will help keep contribution rates down.

The Investment Board will operate under broadly the same investment rules that apply to other Canadian pension funds, and hire professional asset managers to make day-to-day investment decisions at arm's-length from governments.

The foreign property limit for pension funds will apply to the CPP Investment Board. To ensure the fund's smooth entry into the market, the Board's domestic equity investments will be selected passively, substantially mirroring broad market indexes. This passive approach will be re-evaluated at the next CPP review, in 1999.

When provinces borrow from the CPP, they will pay the same rate of interest as they do on their own market borrowings. As a transitional measure reflecting historical arrangements, provinces will have the option of rolling over existing CPP borrowings at maturity for another 20-year term. In addition, provinces will have access, at market rates, to a specified percentage of the funds that the Board chooses to invest in bonds. During the first three years, provinces will have access to 50 percent of the amount that the Board allocates to bonds. After this three-year period, this percentage will be consistent with the percentage of bond holdings allocated to provincial and municipal bonds by Canadian pension funds generally.

The Investment Board will be required to meet high standards of public accountability by: making its investment policies, standards and procedures public; preparing quarterly financial statements and providing them to federal and provincial finance ministers; publishing a detailed annual report; and holding regular meetings in each province for public discussion and input.

The Canada Pension Plan Account and the Canada Pension Plan Investment Fund

Financial Statements
MARCH 31, 1998

Canada Pension Plan Account and the Canada Pension Plan Investment Fund

Management's Responsibility for the Financial Statements

The following financial statements have been prepared by management of the Department of Human Resources Development in accordance with the accounting policies set out in Note 2 to the financial statements. The integrity and objectivity of the data and estimates in these financial statements are management's responsibility. Management is also responsible for all other information in the Annual Report of the Canada Pension Plan and for ensuring that this information is consistent, where appropriate, with the information contained in the financial statements of the Canada Pension Plan Account and the Canada Pension Plan Investment Fund.

In support of its responsibility, management has developed and maintains books of account, financial and management controls, information systems and management practices. These are designed to provide reasonable assurance as to the reliability of financial information, and to ensure that transactions are in accordance with the Canada Pension Plan (the Act) and Regulations, as well as the Financial Administration Act and Regulations.

The Auditor General of Canada, the external auditor of the Canada Pension Plan, audits the financial statements and reports to the Minister of Human Resources Development.

Serge Rainville
Assistant Deputy Minister
Financial and Administrative Services

Mel Cappe Deputy Minister



AUDITOR GENERAL OF CANADA

VÉRIFICATEUR GÉNÉRAL DU CANADA

AUDITOR'S REPORT

To the Minister of Human Resources Development

I have audited the statement of revenue, expenditures and balance of the Canada Pension Plan Account and the statement of purchases, disposals and balance of the Canada Pension Plan Investment Fund for the year ended March 31, 1998. These financial statements are the responsibility of the management of the Department of Human Resources Development. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the balances of the Account and the Investment Fund as at March 31, 1998 and the revenue and expenditures of the Account and the purchases and disposals of the Investment Fund for the year then ended in accordance with the accounting policies set out in Note 2 to the financial statements.

I wish to draw to your attention that, as disclosed in Note 5, overpayments of disability benefits occur. Plan administrators have taken additional measures to prevent, detect and estimate the occurrence of mispayments. At the present time, these measures are not fully operational. This situation will require close monitoring to ensure that these measures, including sufficient reassessments to verify the continuing eligibility of beneficiaries, are implemented satisfactorily.

L. Denis Desautels, FCA Auditor General of Canada

Ottawa, Canada July 30, 1998

Canada Pension Plan Account

Statement of Revenue, Expenditures and Balance for the year ended March 31, 1998

for the year ended warch 51, 1996		
(in millions of dollars)	1998	1997
Revenue		
Contributions (Note 3) Interest (Note 4)	12,790 <u>3,950</u>	11,391 <u>4,118</u>
Expenditures	<u>16,740</u>	<u>15,509</u>
Pensions and benefits (Note 5) Retirement Disability Survivor Death Disabled Contributor's Child Orphan	11,827 2,542 2,447 269 250 202	11,179 2,512 2,309 234 245 197
Administration costs (Note 6)	17,537 298	16,676 242
	17,835	16,918
Excess of Expenditures over Revenue	(1,095)	(1,409)
Balance at beginning of year	37,759	39,168
Balance at end of year	<u>36,664</u>	<u>37,759</u>
Represented by: Canada Pension Plan Investment Fund Deposit with the Receiver General for Canada	32,459 _4,205	34,041 _3,718
	<u>36,664</u>	37,759

Contingencies (Note 8)

The accompanying notes are an integral part of these financial statements.

Approved by the Department of Human Resources Development:

Serge Rainville
Assistant Deputy Minister
Financial and Administrative Services

Mel Cappe Deputy Minister

Canada Pension Plan Investment Fund

Statement of Purchases, Disposals and Balance for the year ended March 31, 1998

(in millions of dollars)

(III Millions of dollars)				
	Balance at beginning of year	Purchases	Disposals	Balance at end of year
Investment in securities (Note 7)				
New foundland	706	_	33	673
Prince Edward Island	156	44	7	149
Nova Scotia	1,277	-	63	1,214
New Brunswick	944	-	48	896
Quebec	111		8	103
Ontario	14,957	-	851	14,106
Manitoba	1,789	-	91	1,698
Saskatchewan	1,522	-	69	1,453
Alberta	4,335	~	163	4,172
British Columbia	4,773	-	238	4,535
Yukon Territory	4	-	10	4
	30,574	-	1,571	29,003
Canada	3,467	-	11	3,456
	34,041	-	1,582	32,459

The accompanying notes are an integral part of these financial statements.

Approved by the Department of Human Resources Development:

Serge Rainville
Assistant Deputy Minister
Financial and Administrative Services

Mel Cappe Deputy Minister

Canada Pension Plan Account and the Canada Pension Plan Investment Fund

Notes to financial statements for the year ended March 31,1998

1. Description of the Canada Pension Plan

a) General

The Canada Pension Plan began in 1966. It is a compulsory and contributory social insurance program operating in all parts of Canada, except Quebec, which operates a comparable program. The Plan's objective is to provide a measure of protection to workers and their families against the loss of earnings due to retirement, disability or death

b) Establishment and authority

The Canada Pension Plan (CPP) is a federal/provincial plan established by act of Parliament in 1965

The Minister of Human Resources Development is responsible for the administration of the act governing the Canada Pension Plan, other than collecting contributions, which is the responsibility of the Minister of National Revenue. The Minister of Finance and his provincial counterparts are responsible for setting CPP contribution rates.

The Canada Pension Plan Account (the Account) was established in the accounts of Canada by the Act, to record the contributions, interest, pensions, benefits and administration costs of the Plan. The authority to spend is limited to the balance of the Account.

The Canada Pension Plan Investment Fund (the Fund) was established in the accounts of Canada by the Act, to record the investment in securities of provinces, territories and Canada.

The CPP, which is under joint control of the Government of Canada and participating provinces, is not considered to be part of the reporting entity of the Government of Canada. Accordingly, its

financial activities are not consolidated with those of the Government.

c) Financing

CPP is financed on a pay-as-you-go basis, which means that the Plan operates on a current basis with pensions and benefits being paid out of current contributions. The balance in the Account is planned, over time, to equal approximately four times the annual payments projected for the following year.

CPP is financed from contributions and interest earned by the Investment Fund. Contributions are paid equally by employers and employees. Self-employed workers pay the full amount.

From 1966 to 1986, the combined employer-employee contribution rate remained at 3.6% of pensionable earnings. In 1987, it was raised to 3.8% and has increased yearly by 0.2% to reach 5.6% in 1996. In 1997 and 1998, the combined contribution rate was increased by 0.4% to reach 6.0% and 6.4% respectively. The maximum combined contributions are \$1,938 for 1997 and \$2.138 for 1998.

Bill C-2, which was proclaimed on December 18, 1997, provides a schedule of contribution rates for 1997 to 2003 and subsequent years. As required by the Act, the Chief Actuary of the Office of the Superintendent of Financial Institutions prepares a periodic actuarial report whenever a Bill is introduced in the House of Commons to amend the CPP. Therefore, the Chief Actuary prepared the Sixteenth Actuarial Report, on the basis of the Fifteenth Report, to show the effect of Bill C-2 on the long-term financial status of the CPP.

As stated in the Act, changes to contribution rates require the approval of at least two-thirds of the provinces having in the aggregate not less than two-thirds of the population of all included provinces.

d) Pensions and benefits

Retirement pensions - A retirement pension is payable to each contributor at age 60 or older, according to the provisions of the Act. The monthly amount is equal to 25% of the contributor's average monthly pensionable earnings during the pensionable period. The amount may be reduced or increased depending upon whether the contributor applies for a retirement pension before or after age 65. This adjustment cannot exceed 30%. The maximum monthly pension payable at age 65 in 1998 is \$744.79.

Disability benefits - A disability benefit is payable to a contributor who is disabled, according to the provisions of the Act. The amount of the disability benefit to be paid includes a flat rate portion and an amount equal to 75% of the earned retirement pension. The maximum monthly disability benefit in 1998 is \$895.36.

Survivor's benefits - A survivor's benefit is payable to the surviving spouse of a deceased contributor, according to the provisions of the Act. For a spouse under the age of 65, the benefit consists of a flat-rate portion and an amount equal to 37.5% of the deceased contributor's earned retirement pension. A surviving spouse between the ages of 35 and 45 who is not disabled or who has no dependent children receives reduced benefits. For spouses aged 65 and over, the benefit is equal to 60% of the retirement pension granted to the deceased contributor. The maximum monthly benefit payable to a surviving spouse in 1998 is \$446.87.

Disabled contributor's child and orphan benefits - According to the Act, each child of a contributor who is receiving disability benefits or who died is entitled to a benefit as long as the child is under the age of 18, or is between the ages of 18 and 25 and attending school full-time. The flatrate monthly benefit in 1998 is \$169.80.

Death benefits - According to the Act, a death benefit is a one-time payment to, or on behalf of, the estate of a contributor. The benefit amounts either to 10% of the maximum pensionable earnings in the year of death or six times the monthly retirement pension granted to the deceased contributor, whichever is less. The maximum death benefit in 1998 is \$2,500.

Pensions and benefits indexation - As required by the Act, pensions and benefits are indexed annually based on the Consumer Price Index for Canada. The rate of indexation for 1998 is 1.9%.

2. Accounting policies

The financial transactions affecting the Account and the Fund are governed by the Act governing the Canada Pension Plan and its regulations.

The Act does not require that the pensions and benefits be prefunded. Accordingly, the financial statements do not provide information on the adequacy of the balance in the CPP Account to meet, on an actuarial basis, the future obligations of the CPP.

a) Canada Pension Plan Account

Contributions are recorded when funds are received from Revenue Canada. As stated in Note 3, funds transferred by Revenue Canada are estimated and are subject to review and adjustments. Adjustments, if any, are recorded

as contribution revenue in the year the funds are received or reimbursed.

Interest revenues are recorded when received.

Pensions and benefits are recorded when paid.

Administration costs are recorded on a modified cash basis of accounting. This basis of accounting allows the recording of amounts paid in a specific period after year-end.

b) Canada Pension Plan Investment Fund

Securities are shown at cost, which is equal to the face value at the time of purchase.

3. Contributions

The Department of Finance estimates annual contributions based on an estimate of pensionable earnings. The calculation of pensionable earnings is based on a formula using many factors such as the growth in the number of contributors and in the average pensionable earnings. Although the Department of Finance uses recent data and statistics in the calculation, a variation may occur in the factors used to estimate the pensionable earnings. For example, a variation of one percentage point in the number of contributors or in the average pensionable earnings for 1997, would result, in each case, in a change of \$142 million in estimated contributions.

Revenue Canada transfers contributions to CPP based on the Department of Finance's estimate of

contributions to be collected for a calendar year as well as its own contribution collection schedule for the year. Actual pensionable earning and contribution amounts for 1997 and 1998 will only be known once Revenue Canada has processed all employers' and self-employed workers' declarations of contributions for 1997 and 1998.

Adjustments, if any, are recorded in the year in which the funds are received or reimbursed. The reimbursements for 1996 and preceding years, paid in 1998 amounted to \$145 million (reimbursement of \$304 million in 1997).

4. Interest

(in millions of dollars)		
Interest on investment in long term securities	<u>1998</u>	<u>1997</u>
Provinces and Yukon Territory Canada	3,431 <u>354</u> 3,785	3,572 355 3,927
Interest on short term investments (3 month term) with Canada	7	13
Interest on deposit with the Receiver General for Canada, at a weighted-average rate of 3.53% (3.85% in 1997).	158_	178
	3,950	4,118

5. Pension and benefit mispayments

Given the nature of the Plan and the number of applicants and beneficiaries, from time to time overpayments and underpayments of pension and benefit payouts may be made. Such "mispayments" occur more frequently for disability benefits. There is greater subjectivity in the adjudication of these applications and, once accepted, beneficiaries must continue to meet the eligibility criteria.

Management of the Canada Pension Plan periodically undertakes a study of the extent and

nature of pension and benefit mispayments. The current study, which is based on the 1996 payment year, includes new procedures to improve the assessment of medical information for determining the continuing eligibility of beneficiaries to receive disability benefits. Through statistical extrapolation, the study estimates the most likely value of undetected mispayments at \$40 million. This includes underpayments of \$16 million and overpayments of \$24 million. Disability mispayments, based on a review of 86.4% of the accounts selected as the study

sample, have a most likely value of \$23 million, which includes underpayments of \$8 million and overpayments of \$15 million.

The previous year's study, which was based on the 1995 payment year, has now been revised to include the application of the new procedures. The revised estimate of the most likely value of undetected mispayments is \$47 million (compared to \$38 million estimated originally) of which underpayments represents \$13 million (\$12 million originally) and overpayments \$34 million (\$26 million originally).

Management has taken several initiatives to improve the administration of the Plan. Treasury

Board has approved \$268 million for the years 1997 to 2001 and subsequent years for the implementation of key initiatives which include, for example:

- implementation of a quality assurance program;
- significant increases in the number of reassessments, verifying the continuing eligibility of beneficiaries; and.
- introduction of new procedures used by the annual study on the extent and nature of pension and benefit mispayments.

6. Administration costs

(in millions of dollars)		Comment army a year before the first or the event construction of the first defining a year of the sec
	1998	1997
Pension and benefit delivery and corporate services (Human Resources Development Canada)	189	123
Collection of contributions (Revenue Canada)	75	70
Cheque issue and computer services (Public Works and Government Services Canada)	17	3 t5
Accommodation (Public Works and Government Services Canada)	15	13
Actuarial services (Office of the Superintendent of Financial Institutions)	1	7
Investment Services (Department of Finance)	1	ngar-ra, 100 dah-da tada tarahasah-ai kapata -
	298	242

Administration costs of the Account represent the cost of services received from a number of federal government departments and an agency. Those costs are charged to the Account in accordance with memoranda of understanding.

The costs for pension and benefit delivery charged to CPP by Human Resource Development Canada include \$43.4 million (\$23.0 million in 1997) for the Income Security Programs Redesign Project (the Project). At March 31, 1998 the cumulative charges to CPP for this project amount to \$142.7 million. In 1997, an independent assessment of the Project implementation strategy was carried out. The assessment examined a series of risk mitigation options for consideration by management of the departments involved in the Project, i.e. Human Resources

Development Canada, Public Works Government Services Canada and Treasury Board Secretariat. It was concluded that the Project's functionality, architecture and implementation strategy were valid as developed, but due to a number of significant changes to the business environment over the six year life of the Project, and the challenges presented by the upcoming Year 2000, successful implementation as scheduled would be unlikely.

In light of the benefits already provided by the Project and the significant level of risk, effort and cost associated with pursuing the full implementation of a client service delivery network, and the recommendations of the independent assessment, it was decided to conclude the Project and to redirect the implementation strategy.

7. Investment in securities

The amounts invested in securities constitute the Canada Pension Plan Investment Fund. Investments in provincial, territorial and federal government securities are made with the cash on hand in excess of the three-month operating requirement. As required by the Act, the amount made available to each province is proportional to the total contributions made by residents of each province and territories during the previous 10-year period. Funds not borrowed by the provinces and territories are invested in federal securities. The securities of Quebec relate to the contributions of certain federal employees residing in Quebec.

All securities are non-negotiable and have a 20-year term or less as fixed by the Minister of Finance on the recommendation of the Chief Actuary of the Office of the Superintendent of Financial Institutions. The interest rate on the securities is determined by the

Minister of Finance based on the average yield to maturity of all outstanding Government of Canada obligations with terms of 20 years or more. All disposals of securities are made, at maturity date, at face value. Interest earned on the investments is credited semi-annually to the Account. Funds derived from the disposal of securities in 1998 were added to the operating balance. In 1998, there were no funds available for long-term investment in provincial and territorial securities.

At March 31, 1998, the balance in the Investment Fund was \$32.5 billion. The following schedule presents the classification of securities by maturity dates and the weighted average annual rate of return on securities currently held. Due to the redemption terms described above, the carrying value of these investments approximate fair value at year end.

(in millions of dollars)

(III TIIIIIOTIS OI GOIIAIS)				
	March	31, 1998	March	31, 1997
Investment maturing	Investment	Average yield	Investment	Average yield
Long tarm investments				
Long term investments:				
Within 1 year	1,645	9.53%	1,582	9.08%
1 - 5 years	8,674	13.48%	7,935	12.27%
Over 5 years	22,140	10.66%	24,524	11.06%
Total - Long term investments	32,459		34.041	
Weighted average yield on long				
term investments		11.36%		11.25%

8. Contingencies

At March 31, 1998, there were 21,980 (26,131 in 1997) appeals relating to the payment of CPP pensions and benefits. Claims for these appeals could reach a maximum of \$55 million (\$31 million in 1997).

A number of persons who have not applied for a disability benefit, but who are potentially eligible, are being assisted by their respective provinces to secure their entitlement. Estimated unpaid retroactive entitlements related to these potential claims at March 31, 1998 amount to \$11 million (\$22 million in 1997).

Any claims resulting from the resolution of these appeals or from retroactive entitlements will be accounted for as an expenditure of the period in which the claim is paid.

9. Subsequent event

The legislation covering the new Canada Pension Plan Investment Board came into force on April 1, 1998. The purpose of this Board is to improve the rate of return on the CPP fund by investing it prudently in a diversified portfolio of securities. The Board is designed to operate at arm's length from the government and it is required to be accountable to both the public and governments through regular reports.

10. Uncertainty due to the Year 2000 Issue

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date.

The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and,

if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect CPP's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting CPP, including those related to the efforts of a number of federal government departments and an agency providing services to CPP, or other third parties, will be fully resolved.

Notes











ANNUAL REPORT OF THE CANADA

PENSION

ANNUAL REPORT OF THE CANADA PENSION PLAN

Fiscal Year 1998-1999

ISPB 202-12-99E

Produced by Human Resources Development Canada's Income Security Programs Branch If you require additional copies of this annual report, please contact:

Public Enquiries Centre Human Resources Development Canada 140 Promenade du Portage Hull, QC K1A 0J9 Tel.: (819) 994-6313 Fax: (819) 953-7260

Aussi disponible en français sous le titre Rapport annuel du Régime de pensions du Canada 1998-1999

For information about the Canada Pension Plan, please call free of charge:

1-800-277-9914 (English) 1-800-277-9915 (French) 1-800-255-4786 (for calls using a TTD/TTY device)

Or visit the Government of Canada's Old Age Security & Canada Pension Plan website at: www.hrdc-drhc.gc.ca/isp





Her Excellency The Governor General of Canada

May it please your Excellency:

We have the pleasure of submitting the Annual Report of the Canada Pension Plan for the fiscal year 1998-1999.

Respectfully,

Jane Stewart



TABLE OF CONTENTS

ABOUT THE CANADA PENSION PLAN4	4
FINANCING THE CANADA PENSION PLAN	1
CPP's Financial Sustainability	1
The Canada Pension Plan	
CPP Account	2
CPP Investment Fund	2
Transition to the New Investment Policy	3
CPP Investment Board	3
Administrative Costs	5
FORWARD-LOOKING INITIATIVES	7
DISABILITY INITIATIVES	3
MANAGING THE CANADA PENSION PLAN 23	3
Determination and Collection of Contributions	3
Administration and Operations	
Payments and Support Services	Ö
APPENDIX A:	
THE CANADA PENSION PLAN STATEMENT OF REVENUE, EXPENDITURES AND BALANCE FOR THE YEAR ENDED MARCH 31, 1999	_
APPENDIX B:	
DEPARTMENTAL RESPONSIBILITIES AND SERVICE COSTS)

This Report on the Canada Pension Plan (CPP) consolidates input from all departments providing services on behalf of the Plan.



ABOUT THE GANADA PENSION PLAN

A MEASURE OF INCOME PROTECTION

The Canada Pension Plan (CPP), which began in 1966, provides benefits to contributors and

their families. The CPP covers employed and self-employed persons between the ages of 18 and 70 who have more than a minimum level of earnings in a calendar year. The Plan operates in every province and territory, except Quebec, which operates a similar pension program, the Quebec Pension Plan (OPP). The benefits and provisions under the CPP include retirement, disability, survivor and death benefits, as well as services under the CPP national vocational rehabilitation program. Benefits are increased each year in January to reflect increases in the average cost of living, as measured by the Consumer Price Index.

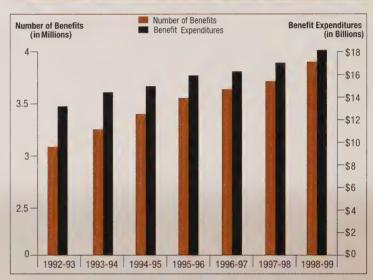
The CPP is self-supporting and is a separate fund from general revenue in the Accounts of Canada. It is financed through mandatory contributions from employees, employers and self-employed persons, as well as through investment income derived from CPP investments. Approximately 10.4 million Canadians currently contribute to the CPP.

Changes to the legislation governing the general level of benefits, the rate of contributions, or the investment policy require an Act of Parliament and the agreement of at least two-thirds of the provinces having not less than two-thirds of the population. In addition, changes of this kind require a two-year notice before coming into force unless all the provinces agree to waive such notice.

BENEFITS

Over 3.4 million people received 3.9 million benefits totaling approximately \$18.2 billion during the fiscal year 1998-99.

TABLE 1 - BENEFITS AND EXPENDITURES BY FISCAL YEAR



CONTRIBUTIONS

Contributions to the Plan are compulsory and are based on employee earnings that exceed a minimum level known as the Year's Basic Exemption (YBE) up to a ceiling known as the Year's Maximum Pensionable Earnings (YMPE). The YMPE is linked to the average Canadian wage and is adjusted annually. Since 1996 the YBE has been \$3,500. It will continue at that level. The YMPE increased from \$36,900 in 1998 to \$37,400 in 1999. Contributions cannot be made after age 70, after a contributor begins to receive a CPP retirement pension, or while an individual is receiving a CPP disability benefit.

Table 2 - AMOUNT OF YMPE AND YBE

	YMPE	YBE			
1997	\$35,800	\$3,500			
1998	\$36,900	\$3,500			
1999	\$37,400	\$3,500			

From 1966 to 1986, the contribution rate was 1.8 percent each for employees and employers with the self-employed paying 3.6 percent of their earnings subject to the yearly maximum amounts. The contribution rate began to increase in 1987 with a combined employee-employer increase of 0.2 percent for 1987 to 1991 and again for 1992 to 1996.

The 1999 contribution rates are 3.5 percent for employees, 3.5 percent for employers with the self-employed paying 7.0 percent.

Revenue Canada (RC) collects contributions on behalf of the CPP. Contributors paid about \$14.8 billion into the Plan during 1998-99. As of March 31, 1999, the CPP held approximately \$36.9 billion.

RETIREMENT PENSION

Eligibility

- Following the contributor's 60th birthday
- If under age 65, the month after the contributor has completely or substantially stopped working

Benefit Rates

- Based on the individual's contributions paid into the Plan
- Benefits are actuarially adjusted by 0.5 percent, up to a maximum of 30 percent, for each month the contributor is either over or under 65 at the start of the pension (this adjustment is made to reflect a longer or shorter period of time that a person receives his/her retirement pension)

RETIREMENT PENSION - FACTS AND FIGURES

Retirement pensions represent 64.3 percent of the total number of CPP benefits paid and 68.1 percent of the total benefit dollars paid out by the CPP in 1998-99.

TABLE 3 - MAXIMUM AND AVERAGE MONTHLY RETIREMENT PENSION AMOUNTS

Age benefit	Maximum am	Maximum amount payable		mount paid
begins	1998	1999	March 1998	March 1999
Age 65	\$744.79	\$751.67	\$417.66	\$418.74
All ages			\$408.55	\$412.38



11/99

Table 5 illustrates that the percentage of new retirement beneficiaries choosing to receive their benefits before age 65 has increased from 61 percent in 1993 to 64 percent in 1998. The number of new retirees at age 60 continues to increase while those between 61 and 65 has decreased.

ASSIGNMENT OF RETIREMENT PENSIONS

In certain circumstances, spouses in a continuing marriage or common-law relationship can receive an equal share of the retirement pension earned by both parties during their life together. Both must be at least 60 and have applied for their retirement pensions.

Table 4 – NUMBER OF RETIREMENT PENSIONS AND ANNUAL EXPENDITURES

At year end March 31	Number of benefits (in thousands)	Number of new benefits	Benefit expenditures (in billions)
1994-95	2,231	178,094	\$ 9.9
1995-96	2,321	180,998	\$10.5
1996-97	2,404	175,706	\$11.2
1997-98	2,489	181,009	\$11.8
1998-99	2,532	173,030	\$12.4

Table 5 – NEW RETIREMENT BENEFICIARIES ELECTING EARLY BENEFITS (as a percentage of new beneficiaries)

Year	Age 60	Age 61-64	Total <65	At age 65	>65
1993	32	29	61	34	5
1994	34	29	63	32	5
1995	35	26	61	34	5
1996	37	26	63	32	5
1997	38	25	63	32	5
1998	40	24	64	31	5

DISABILITY BENEFITS

Eligibility

Disability

- To qualify contributors must
 - be disabled according to CPP legislation and
 - be between the ages of 20 and 65 and
 - meet minimum contributory requirements

Children's

- Paid on behalf of the dependent children of the disabled beneficiary if
 - children are less than age 18 or
 - between 18 and 25 and in full-time attendance at school or university



Benefit Rates

Disability

- Consists of a flat-rate amount and an amount based on the contributions of the applicant
- At age 65, a disability benefit is automatically converted to a retirement pension

Children's

- Flat-rate monthly benefit paid on behalf of the dependent children of the disabled beneficiary
- Children may receive a maximum of two child's benefits

A contributor is considered disabled under the CPP when his/her physical or mental condition is both severe and prolonged. "Severe" means that the person is prevented from working regularly at any job. "Prolonged" means that the condition is long term or may result in death.

The maximum and average monthly amounts payable for 1998 and 1999 are presented in Table 6.

DISABILITY BENEFITS – FACTS AND FIGURES

Disability Benefits, paid to contributors and their children, represent 9.8 percent of the total number of CPP benefits paid and 15.5 percent of the total benefit dollars paid out by the CPP in 1998-99.

SURVIVOR BENEFITS

Eligibility

Survivor

- The deceased must have made a minimum amount of contributions to the CPP
- The common-law or legal spouse of the deceased contributor may be eligible for a survivor pension
- Eligibility and the rate of payment are determined by
 - age of the surviving spouse
 - whether or not the spouse is disabled
 - whether or not the spouse supports dependent children of the deceased contributor

Children of a deceased contributor

- The natural, adopted, or child in the care and control of the deceased contributor, at the time of death, may be eligible for the children's benefit if
 - less than age 18 or
 - between 18 and 25 and in full-time attendance at school or university

Death Benefit

 Paid to the deceased contributor's estate or the person responsible for the funeral expenses

TABLE 6 - MAXIMUM AND AVERAGE MONTHLY DISABILITY BENEFIT AMOUNTS

Type of disability	Maximum amount payable		Average amount paid	
benefit	1998	1999	March 1998	March 1999
Disability	\$895.36	\$903.55	\$674.53	\$676.91
Children's (flat-rate)	\$169.80	\$171.33	\$169.80	\$171.33



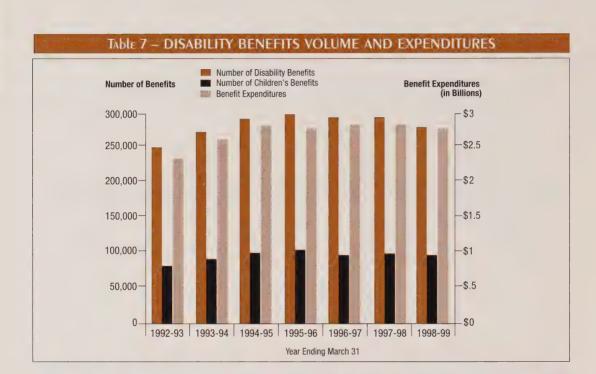


TABLE 8 - MAXIMUM AND AVERAGE MONTHLY SURVIVOR BENEFIT AMOUNTS

Type of Survivor benefit	Maximum amount payable		Average amount paid		
	1998	1999	March 1998	March 1999	
Spouse <65	\$410.70	\$414.46	\$305.85	\$307.38	
Spouse >65	\$446.87	\$451.00	\$236.16	\$239.84	
Children's (flat-rate)	\$169.80	\$171.33	\$169.80	\$171.33	
Survivor/Disability	\$895.36	\$903.55	\$833.86	\$833.84	
Survivor/Retirement	\$744.79	\$751.67	\$548.63	\$557.06	
Death	\$2,500.00	\$2,500.00	\$2,353.62	\$2,162.48	

Benefit Rates

Survivor

- Only one survivor's pension payable to the surviving spouse
- If widowed more than once, the larger of the entitlements is paid
- Survivor and disability or survivor and retirement benefits may be combined to a maximum.
- Children may receive a maximum of two child's benefits

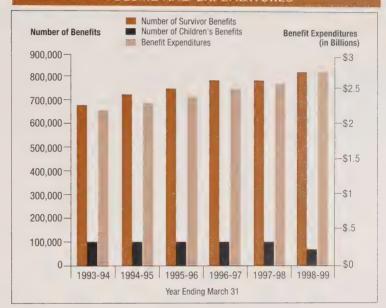
Children of a deceased contributor

 Flat-rate monthly benefit paid to the dependent children of the deceased contributor

Death Benefit

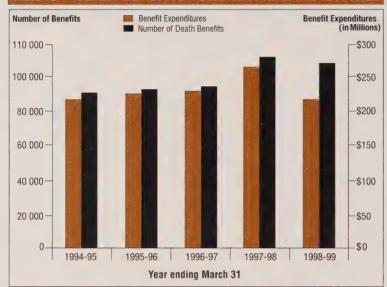
- Lump-sum payment equal to six months' worth of the deceased contributor's "calculated" retirement pension, up to a set maximum for the year of death
- maximum \$2,500 for deaths after December 31, 1997

Table 9 – SURVIVOR AND CHILDREN'S BENEFITS VOLUME AND EXPENDITURES



98/99

Table 10 - DEATH BENEFITS VOLUME AND EXPENDITURES



SURVIVOR AND CHILDREN'S BENEFITS – FACTS AND FIGURES

Survivor benefits, paid to the surviving spouse of the contributor and his/her children, represent 23.2 percent of the total number of CPP benefits paid and 15.2 percent of the total benefit dollars paid out by the CPP in 1998-99.

DEATH BENEFITS - FACTS AND FIGURES

Death benefits represent 2.7 percent of the total number of CPP benefits paid and 1.2 percent of the total benefit dollars paid out by the CPP in 1998-99.

SPLITTING PENSION CREDITS

The CPP allows contributors to split their accrued pension credits between spouses upon the dissolution of their marriage or common law relationship. (and the receipt of the

required information). The credit splitting provision is mandatory when there is a divorce, except in Saskatchewan, Quebec and B.C, where a couple can choose to opt out through a spousal agreement. Since 1987, credit splitting is also available to separated spouses, upon application.

During 1998-99, 8,779 applications for credit splitting were approved.



FINANCING THE CANADA PENSION PLAN

CPP'S FINANCIAL SUSTAINABILITY

Public consultations in 1996 clearly indicated that Canadians believe in the CPP and want it preserved. Progress in attaining this goal is now tangible. The Seventeenth Actuarial Report on the CPP, tabled in Parliament in December 1998, indicates that the CPP is financially sustainable. This is largely the result of legislative changes made to the Plan that took effect in early 1998 (Bill C-2, An Act to establish the CPP Investment Board and amend the CPP and OAS Act) and detailed in the 1997-98 CPP Annual Report. Changes included strengthening the Plan's financing, improving its investment practices, and slowing the growing costs of benefits. The provisions regarding the Plan's investment practices began to take effect in the 1998-99 fiscal year.

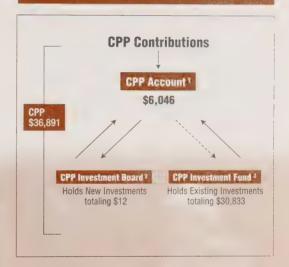
In addition, a panel of three independent actuaries reviewed the Seventeenth Actuarial Report and supported the overall conclusion reached by the Acting Chief Actuary regarding the financial soundness of the CPP.

THE CANADA PENSION PLAN

An account for the CPP is established in the Accounts of Canada to record the contributions, interest, pensions, benefits and administrative expenditures of the Plan. It also records the amounts transferred to or received from the CPP Investment Fund and the CPP Investment Board. The authority to spend is limited to the balance in the account.

The CPP Statement of Revenue, Expenditures and Balance for the year ended March 31, 1999, with the previous year's statement as audited by the Auditor General of Canada, is presented in Appendix A. With the commencement of the operation of the CPP Investment Board, the CPP Statement of Revenue, Expenditures and Balance has been modified in 1999 to reflect the three components of the Canada Pension Plan.

Table 11 – CPP CASH FLOW AND COMPONENT OVERVIEW AS OF MARCH 31, 1999 (IN MILLIONS)



- A separate account in the Accounts of Canada comprised of an operating balance of \$5,427 million and short term investments of \$619 million.
- An independent corporation operating at arms length from governments. Investment income flows back into the Consolidated Revenue Fund and is credited to the CPP Account as the need arises.
- A separate account in the Accounts of Canada. Investment income flows back into the Consolidated Revenue Fund and is credited to the CPP Account. New Contributions no longer flow into the Fund.

W/99

These three components are the CPP Account, the CPP Investment Fund, and the CPP Investment Board and together constitute the balance of the Canada Pension Plan. In previous reports, the term "CPP Account" represented the balance of the Plan. The balance of the plan represents accumulated contributions and investment income since its inception in 1966 minus benefits and expenditures made in the same period.

As of March 31, 1999, the balance of the CPP was approximately \$36.9 billion and was equal to 2.03 years' worth of benefits. These funds provide a reserve in the event of circumstances such as lower than expected contributions because of economic conditions or higher than expected benefit payments. Under the provisions put into place in 1997-98 to strengthen the Plan's financing, the balance will increase to between four and five years' worth of benefits over the next two decades. Table 11 outlines the various components of the CPP.

CPP ACCOUNT

The CPP Account comprises an operating balance and short-term investments. The operating balance is maintained at a level to meet the anticipated benefit payments and administrative charges from the Account for the next three-month period. These funds are not invested in provincial securities but earn interest on the average daily balance of the reserve. The interest paid on these funds is calculated by averaging the unweighted average yields at tender on three-month Treasury Bills during the month the interest is paid less one-eighth of one percent.

During 1998-99, the operating balance maintained an average interest rate of 4.80 percent earning \$261 million. Short-term investments had an average interest rate of 4.87 percent earning \$35 million.

CPP INVESTMENT FUND

Under the former investment policy, funds not immediately needed to pay benefits were invested in securities of the provincial and territorial governments, provincial Crown agencies, and the Government of Canada. The CPP Investment Fund continues to hold its money in these securities; however they are no longer being purchased with new funds. At March 31, 1999, the balance in the Investment Fund was \$30.8 billion with all securities held having 20-year terms.

Interest

In 1998-99, the Investment Fund earned about \$3.6 billion in interest, which was deposited in the CPP. The Statement of Purchases, Disposals and Balance for the year ended March 31, 1999, as presented in Appendix A summarizes the status of the Investment Fund as of March 31, 1999.

Maturing securities are regularly redeemed with the principal and any outstanding interest reimbursed by the provinces and territories. In 1998-99, \$1.7 billion in securities bearing a weighted average interest rate of 9.5 percent matured and were redeemed. All interest and principal payments have always been paid by the provinces and territories when due. There were \$87 million in securities that were re-invested.

Rates of Return

The Investment Fund continues to benefit from the high rates of return of securities that were bought under the former investment policy, which bear a weighted average annual return of 11.44 percent. Since these securities are long-term (20-year) government bonds, the Fund's average rate of return will remain above 10 percent for the next several years. These securities were bought in the early 1980s when interest rates were relatively high; therefore, the short

term rate of return will exceed the Fund's expected long-term rate of return of 7 percent.

The new long-term investment strategy is expected to provide better returns than the previous approach of only investing in government bonds, as well as improve diversification of investments.

TRANSITION TO THE NEW INVESTMENT POLICY

As the securities bought under the former investment policy mature and are redeemed, they may be transferred to the CPP Investment Board and reinvested under the new policy. However, as a transitional measure reflecting historical arrangements, provinces will have the option of rolling over existing CPP borrowings at maturity for one last 20-year term. If the provinces choose this option, they will pay the same rate of interest as they do on their other market borrowings. In addition, provinces will have access, at market rates, to a specified percentage of the funds that the Board chooses to invest in bonds. During the first three years, provinces will have access to 50 percent of the amount that the Board allocates to bonds. After this three-year period, this percentage will be consistent with the percentage of bond holdings generally allocated to provincial and municipal bonds by Canadian pension funds.

CPP INVESTMENT BOARD

The Canada Pension Plan Investment Board assumed responsibility during the 1998-99 fiscal year for investing and managing funds not immediately needed to pay benefits. The Board's first directors were appointed on October 29, 1998. Between November 1998 and March 1999, the Board met six times, reflecting its substantial start-up responsibilities. By the end of March 31, 1999, the Board had:

- established its first by-laws (for the Board's governance and director compensation);
- formed its first committees (investment, audit, human resources and compensation, and governance);
- adopted corporate governance guidelines, conflict of interest guidelines and a code of conduct;
- established an interim investment policy;
- · begun investing funds; and
- issued two quarterly reports.

Throughout the reporting period and pending the appointment of a permanent CEO, Board Chairperson Gail Cook-Bennett served as the Acting CEO. During this time, major decisions about infrastructure, such as permanent staffing and strategic plan, were deferred until the arrival of the permanent CEO.

Investment Policy

The Board established its interim investment policy on December 18, 1998, consistent with the parameters set out in the *Canada Pension Plan Investment Board Act*. This policy will be periodically reviewed. The key elements are as follows:

- 100 percent of the Board's assets will be invested in equities, reflecting in part, the cash inflow from the CPP's existing bond portfolio;
- 80 percent of the assets will be invested domestically, 20 percent internationally, in keeping with the Foreign Property Rule, which applies to the Board;
- the domestic equity will be indexed, as required by regulation; this will be done by replicating the TSE 300 (with TD Quantitative Capital serving as investment manager); and
- the 20 percent international component will also be indexed, replicating the S&P 500
 Index and the Morgan Stanley Capital

International (MSCI) EAFE (Europe, Asia and Far East) Index.

In the future, regulations may be changed so that the Board can invest more actively in a diversified portfolio of equities, rather than just passively in indices. The accounting firm of Deloitte & Touche was appointed as the Board's auditor.

Under the new investment policy, the CPP Investment Board will prudently invest the CPP Fund in a diversified portfolio of securities. This will secure the best possible long-term rate of return and better protect the Fund under a variety of economic conditions.

Based on prudent assumptions, under the new policy the CPP is expected to secure an average long-term real return of 3.8 percent a year, i.e. above the rate of inflation, compared to 2.5 percent under a continuation of the former policy. A higher investment return on the fund will help keep contribution rates down.

The Investment Board will operate under the same general investment rules that apply to other Canadian pension funds, and hire professional asset managers to make day-to-day investment decisions at arm's-length from governments.

The foreign property limit for pension funds of 20 percent will apply to the CPP Investment Board. To ensure the fund's smooth entry into the market, the Board's equity investments will be

selected passively, substantially mirroring broad market indexes. This approach will be re-evaluated at each CPP Triennial review.

The Investment Board is required to meet high standards of public accountability by:

- making its investment policies, standards and procedures public;
- preparing quarterly financial statements and providing them to federal and provincial finance ministers;
- publishing a detailed annual report; and
- holding regular meetings in each province for public discussion and input.

Investment Activities

The Board received its first funds for investment in March 1999, totaling approximately \$12 million. Accordingly, as of its first fiscal year-end, March 31, 1999, it had assets of just over \$12 million, including \$202,000 in investment income.

More than \$1 billion in new cash flow is expected over the next year. The Fund managed by the Board will continue to grow as the current assets of the CPP, mostly government bonds, mature and are invested by the Board in market equities. In addition, the Fund will increase as a result of increased CPP contributions making substantially more funds available to the Board for investments.





Looking toward the future

In April 1999, the Governor in Council approved the regulations setting out the broad investment parameters for the Board.

The Board announced the appointment of its first CEO, John McNaughton, on June 22, 1999. Mr. McNaughton, the recently retired president of Nesbitt Burns, was also president & Chief Executive Officer of Burns Fry, and spent over 30 years with Nesbitt Burns and its predecessor firms. He is a past chairman of the Investment Dealers Association. His appointment is effective September 7, 1999.

ADMINISTRATIVE COSTS

The approximately \$304 million annual cost for 1998-99 to administer the CPP is shared among all federal government departments responsible for delivering CPP services (refer to Appendix B). Costs are allocated to the CPP based on the costing principles approved by Treasury Board and included in the Memorandum of Understanding established with each department. The underlying characteristics of the costing principles are that the charges have a causal relationship to the CPP for their occurrence and are traceable.

Table 12 – SUMMARY OF ACTUAL AND ESTIMATED CPP ADMINISTRATIVE COSTS AND FORECAST OF EXPENDITURES BY DEPARTMENT/BRANCH – 1997-98 TO 2001-02 (in thousands)

	ACTUALS		FORECASTS		
	1997-98	1998-99	1999-00	2000-01	2001-02
HRDC Administration & Accommodation ¹	\$189,700 \$13,736	\$205,929	\$234,082	\$226,008	\$215,200
Revenue Canada	\$ 74,800	\$ 75,753	\$ 74,600	\$ 77,000	\$ 80,300
PWGSC⁴-Services	\$ 17,864	\$ 14,352	\$ 14,000	\$ 14,000	\$ 14,000
OSFI⁵	\$ 1,100	\$ 1,022	\$ 900	\$ 1,000	\$ 1,100
CPP Investment Board	-	\$ 6,000 ²	3	3	3
Finance	\$ 500	\$ 530	\$ 600	\$ 600	\$ 600
Total	\$297,700	\$303,586	\$324,182	\$318,608	\$311,200

Starting in 1998-99 accommodation costs are included in HRDC as opposed to Public Works and Government Services Canada (PWGSC) to reflect inclusion of accommodation in the HRDC vote of budget.

Although the CPP Investment Board was forwarded \$6 million for start-up costs, it only actually used \$1.076 million and will repay the remainder in 1999-2000.

³ At this time, the CPP Investment Board is unable to make precise forecasts regarding future administrative costs.

⁴ Public Works and Government Services Canada (PWGSC)

⁵ Office at the Superintendant of Financial Institutions (OSFI)

CPP ADMINISTRATIVE COSTS COMPARE WELL TO OTHER PENSION PLANS

As a ratio of costs-to-benefits-paid, CPP administrative expenses represent 1.67 percent of the \$18.2 billion in benefits paid (or 1.64 percent of total expenditures). This ratio compares very favourably with that of other pension plans. For example, large pension plans in the private sector had, on average, administrative costs equal to 5 percent of the total expenditures in 1997.

In addition, CPP administrative costs compare favourably to those of RRSPs. Under the new investment policy, CPP investment costs are expected to be as low as those of other large pension plans that have annual investment costs of one tenth of one per cent of assets. This is much less than the 2 to 3.5 percent that is commonly charged for individual RRSPs.

Table 12 presents the administrative expenditure forecasts for the coming years.

During fiscal 1997-98 the Treasury Board approved a proposal for additional funding to

address specific CPP workload issues consistent with serving a growing client base. These included:

- implementing CPP legislative changes to ensure long-term stability and sustainability of the Plan;
- maintaining and improving client telephone services:
- putting more emphasis on program integrity initiatives;
- enhancing performance measurement mechanisms;
- establishing stronger headquarters-regional operational links;
- addressing the Auditor General's recommendation to strengthen management of the CPP disability program by investing substantial resources in the reassessments and vocational rehabilitation of clients;
- setting up a formal disability quality assurance program; and
- increasing communication efforts with current and potential clients as well as with other disability program providers.



FORWARD-LOOKING INITIATIVES

The number of CPP clients is projected to increase by 49 percent over the next 16 years. This will result in an increased demand for CPP administrative and operational services. In preparation, HRDC is updating and streamlining CPP support systems and its management information framework.

INFORMATION TECHNOLOGY RENEWAL PLAN

HRDC is embarking on an information technology renewal project to upgrade and replace existing application systems and the technology supporting those systems. This renewal effort is composed of a number of separate projects that will evolve over the next five to seven years.

The information technology renewal plan will directly:

- enhance existing CPP delivery systems to better meet current and future client needs;
- develop an integrated delivery system;
- develop an innovative technology strategy;
- develop the Internet as a mode of service; and
- focus on providing management, performance and program information to clients and staff.

Renewing CPP support systems will simplify enhancements due to legislative and/or policy changes; and will reduce the need for more staff. In addition, the system renewal supports Government of Canada commitments related to electronic commerce and information sharing.

CONTINUING IMPROVEMENTS IN PROGRAM MANAGEMENT

HRDC continues to organize information used to make management decisions in order to improve its quality, accessibility and usefulness. For example, the financial reporting structure will be better linked to the organization's activity structure enhancing our ability to cost each activity. Ongoing research, particularly on the disability program, will result in a more integrated approach to reporting by June 2000.

In addition, development continues on the Reporting Database which is an electronic data warehouse that supports both operational and management reporting requirements.



DISAbilITY INITIATIVES

Table 13 - RECENT TRENDS IN THE DISABILITY CASELOAD



BACKGROUND

The CPP disability program is the largest such program in Canada. In 1998-99 the CPP paid monthly benefits to 287,500 disabled contributors and 99,000 children of disabled contributors. During 1998-99, \$2.8 billion was spent on CPP disability benefits. Of this, \$2.6 billion went directly to disabled workers and \$248 million was paid for their children.

The CPP disability program continued to face new challenges in 1998-99. To meet these challenges, further improvements were made to the program:

- a reduction in waiting times for decisions at initial levels of the application process;
- further decentralization of program delivery, particularly in vocational rehabilitation and reassessment;
- the development of a quality assurance program focused on decision-making; and
- expanded partnerships with other disability programs.

ASSURING QUALITY

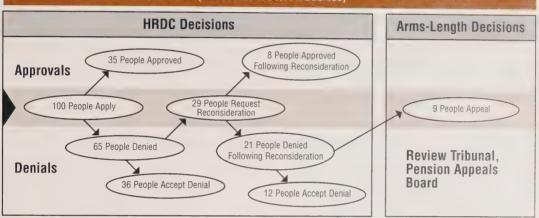
The 1996-97 Auditor General's report observed that even though there were numerous mechanisms in place to monitor the quality of decisions, CPP disability administration did not have a formal and systematic quality monitoring program. In response, a formalized quality assurance program is being designed to enhance the decision-making

process for disability benefits throughout Canada.

The CPP disability quality assurance program will help to assess four disability business streams: initial decisions, reconsiderations, reassessments and appeals to a Review Tribunal. The program will reveal the nature and extent of variances and inconsistencies in the decision-making process, provide payment accuracy estimates, provide trend analysis information, and help to ensure conformity and consistency with CPP legislation and policies. Reports providing reliable measures, and recommendations for national enhancements, will also be a key result of the program.

Quality Assurance pilot projects commenced in September 1999 in Edmonton, Alberta and Scarborough, Ontario. Full implementation is slated for March 2000.

Table 14 - CPP DISABILITY DECISION-MAKING PROCESS (BASED ON 1998/99 VOLUMES)



(see Table 24 and Table 25 under "Review Tribunal, Pension Appeals Board")

CLIENT SERVICE

HRDC manages and is accountable for the initial adjudication (the initial assessment) of a client's disability application as well as the reconsideration level. It is in these areas that the department can directly effect improvements to ensure speedy and fair decisions for our clients. Departmental staff is aware of the impact of delays on the lives of those who seek assistance so every effort is made to get a decision for clients

early in the process. At the same time, staff is careful to ensure that decisions are not prematurely rendered if there is a chance that more information can be found to clarify a condition, leading to a positive decision for the applicant.

More than 90 percent of all applications for CPP disability benefits are finalized during initial applications and reconsiderations. These are the two stages of the decision-making process for which HRDC is responsible. Table 14 provides an overview of the CPP disability

TABLE 15 - REASSESSMENT SAVINGS AND OVERPAYMENTS

Year ending March 31	Number of Decisions	Number of Benefits Ceased	Percentage of Benefits Ceased	Annual Savings	Overpayments
1994-95	3,407	1,681	49.3%	\$16,261,680	\$6,224,600
1995-96	6,968	2,328	33.4%	\$21,060,672	\$6,033,510
1996-97	14,036	2,633	18.8%	\$24,353,940	\$12,806,696
1997-98	11,833	2,985	25.0%	\$27,601,848	\$23,368,933
1998-99	10,744	2,687	25.0%	\$25,273,476	\$10,124,228

28/99

decision-making process. How long it takes to resolve an individual case depends on the complexity of medical conditions and the need for additional information. Since the Program relies on applicants and their physicians to provide this information, processing times can vary significantly. Internal performance goals are currently measured on a statistical sampling of recent files. Processing times for initial applications dropped from 70.1 days on a volume of 13,044 applications in the first quarter of 1998-99, to 53.7 days on a volume of 13,378 applications in the last quarter of 1998-99. A formal standard will be adopted once an automated computer-based mechanism to measure processing times is developed.

IMPROVEMENTS IN REASSESSMENT ACTIVITIES

CPP regularly reassesses its' clients to ensure that only those eligible will continue to receive benefits. Reassessments are a vital component of the Department's commitment to preserve the integrity of the program for future clients.

While some medical conditions are progressive and terminal, others may improve over time, or clients may find suitable work. For this reason, a client's file may be periodically reassessed in order to ensure that he or she continues to meet the eligibility criteria. Where there are indications of potential future improvements in the client's medical condition, a date is set at the time of the initial grant for a re-evaluation of the client's capacity to work. Reassessments are also initiated if information is received that indicates the client has already returned to work or has regained the capacity to work. Such information may be received from third parties or by earnings information received from Employment Insurance and Revenue Canada. In 1998-99, CPP began

receiving earnings information on self-employed and CPP-exempt clients from Revenue Canada.

A total of 10,744 reassessments were completed in 1998-99. Of these, 25 percent resulted in ceased accounts producing annual savings of \$25.3 million. Since the reassessment program was re-engineered in May 1993, the department has produced an estimated \$129 million in annual savings (see Table 15).

In 1998-99, work accelerated on the multiyear plan to regionalize the reassessment function. The objective is to move the function closer to the clients, and to integrate it with the rest of CPP disability benefit delivery. Reassessment "pilots" were established in Fredericton, New Brunswick in November 1998 and in Scarborough, Ontario, in April 1999.

EXPANSION OF REHABILITATION EFFORTS

The CPP vocational rehabilitation program is designed to assist disability benefit recipients whose medical condition has improved and who may have the potential to return to work. The program is voluntary. CPP uses a case management approach that is, it works with each client individually to develop a customized return-towork plan. Individual plans can include services such as vocational assessment and testing, skills upgrading and job search assistance. Private-sector vocational rehabilitation specialists based in the region where the client lives deliver case management services.

During the past year, an important objective has been to assist more clients who want to return to the workforce. The number of clients participating in the program has doubled from 1997-98 to 1998-99. This can be attributed to increased awareness of the program and to the move to a regional service delivery model, which was completed in mid-1998. The success of the

CPP vocational rehabilitation program has also encouraged HRDC to look for other ways to assist and encourage disability benefit recipients who may be ready to return to work.

COOPERATION WITH OTHER DISABILITY PROGRAMS

In 1998-99, HRDC made it a high priority to expand the scope of the CPP's relationships with other organizations that provide income support for the disabled.

Amendments made to the CPP allowed the Department to broaden its capacity for information sharing and to simplify reimbursement to the provinces, municipalities and private insurers. The expanded provisions allow CPP to improve client service, ensure timely and accurate benefit payments and partner with other federal departments and provincial governments to deliver services to Canadians in the most efficient manner. These changes ensure that programs providing immediate income support can be reimbursed when a CPP disability benefit is subsequently determined to be payable.

In 1998-99, the Minister signed informationsharing agreements with the workers compensation boards of Prince Edward Island, New Brunswick, Manitoba, Nova Scotia and Alberta. The agreements provide a framework that allows CPP and WCB to work together in areas such as return-to-work initiatives for mutual clients. By comparing and sharing information, both programs are better able to reduce costs and duplication of services and reduce the risk of continuing to pay benefits to clients who are no longer eligible.

In addition, the Minister, together with provincial and territorial Ministers responsible for Social Services, released In Unison, a joint vision paper for the integration of persons with disabilities in Canada in October 1998. The future partnership work of the CPP will focus on realizing In Unison's goals of removing disincentives to work; adopting rehabilitation and labour market re-entry measures that promote reintegration; and streamlining assessment and reassessment procedures.

IMPROVING THE APPEALS PROCESS

In 1997, HRDC undertook a study of the appeals system that indicated there were a number of options for improving its efficiency. Based on this study, a major project was launched in 1998-99 to review the entire appeals process in more detail and to recommend changes. The guiding principles for the review are fairness, effectiveness and efficiency. Recommendations for change are expected in 1999-2000.

In the meantime, CPP is making every effort to increase the efficiency of the system. HRDC continues to work closely with the Office of the Commissioner of Review Tribunals and the Pension Appeals Board to improve coordination and update management practices.

Both the Office of the Commissioner of Review Tribunals and the Pension Appeals Board have improved and augmented client communication to better inform appellants of the appeal process. A significant number of new members were appointed to the Office of the Commissioner of Review Tribunals and the Pension Appeals Board allowing appeals to be processed more quickly.

Special initiatives were undertaken in 1998-99 to address delays at the Pension Appeals Board. An Executive Director was appointed in July 1998 to modernize management practices. Additional staff were hired to expedite processing. Two "blitzes" of applications for leave to appeal were held resulting in over 2000 applications being processed. CPP also augmented its

08/99

staff to manage the increased workload resulting from the additional Pension Appeals Board activity.

IMPROVING COMMUNICATION WITH DISABILITY CLIENTS AND THEIR ADVOCATES

HRDC Regional Outreach Offices are actively consulting with several groups connected with the community of persons with disabilities. Contact has been established with disability organizations, social service providers, the legal communities, MP's offices, insurance companies and other groups that assist the disabled.

Consultations have led to a greater understanding of the needs of the disabled, and an improved capacity to disseminate information to them. For example, consultations between the Ontario Region and its' medical community has led to an increased understanding of the process behind attaining a CPP disability benefit and the information required to make an accurate decision.

Regional HRDC Offices are also improving direct communication with new disability applicants as well as their own staff to ensure they understand the application process and all its requirements. Ultimately these steps will

improve CPP's client service.

HRDC will continue this consultation process by actively seeking partnerships with organizations representing persons with disabilities, disability service providers and disability applicants.

Investigating Dispute Resolution Techniques

In an effort to improve the management of CPP disability claims, HRDC has been actively investigating the use of dispute resolution techniques as a means of improving client service.

Dispute resolution techniques can prevent or resolve disputes, prior to entering the formal appeals process. As a result, they offer the potential for improved management of client caseloads, reduced costs and increased client and staff satisfaction.

Based on its investigation, HRDC developed a proposal for financial support from the Department of Justice Dispute Resolution Fund for CPP to conduct, during 1999-2000, a series of pilots to test the use of dispute resolution techniques at several points in the disability decision making process.



MANAGING THE CANADA PENSION PLAN

Various federal government departments manage the CPP. The distribution of responsibilities and the service costs associated with them are outlined in Appendix B. The following overview of the CPP is divided along functional lines.

DETERMINATION AND COLLECTION OF CONTRIBUTIONS

Approximately 94 percent of CPP contributions are remitted to Revenue Canada (RC) by employers and employees. The remaining 6 percent are remitted by the selfemployed. The amounts collected by RC annually are displayed in Table 16.

Compliance/Enforcement

To complement the collection activity, RC assesses and verifies earnings and contributions, advises employers and employees of their rights and responsibilities, conducts audits, and reconciles reports and T4s submitted.

The compliance and enforcement process is based on a progressive, riskbased approach ranging from computerized matching of data to on-site audits. As well, employers may request on-site assistance

for clarification on payroll withholding requirements, or employees may seek advice if they feel their employer is contravening a related tax law.

Although most employers remit the proper amounts, some fail to comply, usually due to cash flow problems. When contacted by RC, these employers recognize that the employee trust deductions must be properly deducted, remitted and reported. Subsequent compliance by these employers is generally good.

Table 16 - CPP CONTRIBUTIONS COLLECTED (IN BILLIONS)



TABLE 17 - AUDIT ACTIVITY AND RESULTS	PERIOD ENDING MARCH 31		
	1997–98	1998–99	1999-2000 (projected)
Number of audits completed	56,982	50,683	57,225
Number of audits resulting in assessments for CPP	34,190	29,154	34,335
Percentage of audits resulting	60%	58%	60%

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There are about 1.3 million employer accounts open of which approximately 900,000 are active at any one time. During 1998-99, 50,683 audits were conducted to resolve problems. The level of audit activity is summarized in Table 17. Like all other RC activities, an audit consists of not only reviewing the CPP deductions and remittances, but also verifying income tax and employment insurance deduction requirements.

Rulings

RC tax service offices and tax centers issue rulings that determine questions such as whether or not a worker is engaged in pensionable employment and whether or not specific earnings require CPP contributions. RC 's goal is to complete each ruling within 30 days of receipt. In 1998-99, RC made 16,863 rulings for CPP purposes.

Appeals

Under the CPP, individuals have appeal rights for rulings and assessments. RC encourages employers to contact its' Problem Resolution Program Co-ordinator before resorting to the more formal appeal process. Approximately 9.3 percent of the CPP rulings and assessments issued are the result of appeals, administered by independent appeals staff in RC tax service offices. For issues that remain unresolved, there is recourse through the judicial process ranging from the Tax Court to the Supreme Court of Canada.

Coverage and Extensions of Coverage under Social Security Agreements

In accordance with Canada's social security agreements with many

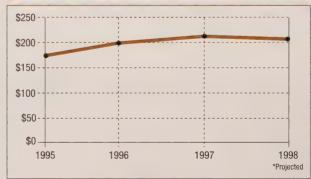
countries, RC issues certificates of coverage and extensions of coverage relating to the CPP. In 1998-99, RC issued 2,169 certificates of coverage and 256 extensions of coverage. In addition, foreign employers without a place of business in Canada may apply to have coverage under the CPP for employment they provide in Canada.

In order to serve clients better, tax service offices also present seminars on various ruling-related aspects of the CPP.

Record of Earnings

RC and HRDC have formed an interdepartmental improvement team that focuses on verifying and correcting records of earnings and contributions. In 1998-99, more than 2.4 million records were reviewed. This resulted in \$1.9 billion in earnings and \$431 million in contributions being added to the correct client records.

Table 18 — OVERPAYMENTS AND ADJUSTMENTS REFUNDED (in millions)



Overpayments and Adjustments to Contributions

For the year ending December 1998, an estimated \$212.4 million in CPP overpayments were refunded. Some adjustments were also necessary on CPP contributions by self-employed individuals.

Overpayments and adjustments to contributions occur when an individual is employed in two or more positions at the same time during the year and is paying contributions for each employment. At year end, RC issues a refund since contributions are only paid up to a yearly maximum pensionable earnings amount regardless of the number of jobs held during the year. Table 18 presents the overpayments and adjustments refunded by year.

Publicity

RC publishes information on the CPP in a variety of publications. The "Index to Revenue Canada Services" and the pamphlet entitled "Alimony or Maintenance" are two examples. RC also publicizes CPP information through such activities as the Community Volunteer Income Tax Program and "Teaching Taxes". For further information see the RC website located at http://www.rc.gc.ca/menu/EmenuZZZ.html

ADMINISTRATION AND OPERATIONS

Serving CPP Clients

HRDC's commitment to providing quality service is reflected in our published service standards that state:

- You are entitled to courteous and considerate treatment, and complete and accurate information about your entitlements and obligations.
- We aim to keep the waiting time to meet a client service officer to a minimum.
 Waiting times will be posted in our offices.
- You are entitled to receive your first CPP payment within 35 days of a decision being made on your application.

HRDC services are offered in-person, by telephone and by mail. Information about the CPP is also available on the Internet and at self-service electronic kiosks. There are approximately 5,200 electronic kiosks. Of these 3,700 are located in HRDC offices with another 1,500 located in satellite offices, partnership organizations, community centres, malls, etc.

Table 19 - VOLUME OF CLIENT SERVICE BY SERVICE TYPE

	1996-97	1997-98	1998-99
In-person Interviews*	635,064	630,279	574,672
Telephone Calls Received by an SDA*	2,562,906	3,424,789	3,281,561
New CPP Applications Processed	327,134	371,364	352,108
New DSB Applications Adjudicated	76,516	70,109	64,049
Appeal Decisions Processed (HRDC and Arms-length Appeal bodies)	32,919	34,913	34,054

^{*} This data represents the total of CPP and OAS interviews. Since interviews frequently cover both programs, CPP data is not available in isolation.

Telephone Service: Ten HRDC telephone centres located throughout Canada handle client enquiries and accept requests for applications. HRDC encourages clients to do their business by telephone and the volumes presented in Table 19 indicate that it is the type of service they pre-

fer. Since July 1998, HRDC has consistently met its telephone service standard of having 95% of telephone calls answered by a Service Delivery Agent within 180 seconds. Table 20 presents more detailed information pertaining to telephone service.

Table 20 - TELEPHONE SERVICE STATISTICS

	1997-98	1998-99
Percent of clients accessing the telephone system on the first attempt	98.0%	98.4%
Percent of clients served by an SDA within 180 seconds of placing their call	92.1%	94.9%
Average time spent waiting in a telephone queue for the call to be answered	35 sec.	37 sec.
. Average time that clients speak with an SDA	241 sec.	235 sec.

^{*} This data is based on CPP and OAS totals. It is unlikely that speed of service varies between programs.

Mail Service: HRDC has eleven mail-processing centres located throughout Canada. These centres handle new applications, various documents, and enquiries. They also review and make decisions on the majority of new applications. Volumes for new applications and DSB applications are presented in Table 19. With the exception of Disability applications, that take on average 53 days to process, new CPP applica-

tions received during 1998-99 were processed within 12.1 working days.

In-person Service: There are one hundred and eight Human Resources Client Centres in Canada. These centres handle enquiries, accept documents and provide detailed benefit and process information. Volumes for in-person interviews are cited in Table 19.

HRDC's Client Service Success

The 1998 Client Service Survey of CPP and OAS clients found that clients are overwhelmingly satisfied with the services and the information they receive from HRDC. Almost 90% of clients find HRDC service to be courteous and considerate and the information provided to be complete and accurate whether received by telephone or in-person.

In the 1998 "Citizens First" Survey, conducted by the Canadian Centre for Management Development, Canadians rated CPP and OAS services third highest compared to seventeen other Federal Service Providers. Quality service was characterized by timeliness, competence, courtesy, fairness and obtaining the information needed. In general, Canadians are very satisfied with the CPP service they receive.

Keeping the Records

The total number of Social Insurance Numbers issued between 1964 and the end of March 1999 was 34,250,809 of which 23,770,311 have some form of earnings and/or contributions recorded. There are approximately 10.4 million active contributors who do not receive CPP benefits. The number of SINs issued during 1998-99 was 1,202,536, an increase over the 1997-98 total of 717,049. The presumption is that much of the increase was due to interest in the Canada Education Savings Grant.

In partnership with the QPP, RC, and the Ministère du Revenu de Québec (MRQ) HRDC maintains the records of pensionable earnings and contributions to the CPP for 23.8 million Canadians.

During 1998-99 significant effort was made to ensure the accuracy of Canadians' contributions to

the CPP for 1997. Changes made to the contribution rate from 2.93 percent to 3.0 percent part way through 1997, after employers had already set up their computer systems and accounting operations for the year, increased the potential for error. It was determined that the best way to correct possible errors in contributions due to the change was for RC to collect the employer's share of the difference, in one payment, at the end of the tax year and then to collect the employee's share of the difference through the 1997 tax returns. These contributions were examined closely to ensure that correct information was placed on each contributor's account.

In partnership with RC, la Régie des rentes du Québec, Revenu Québec and the Social Insurance Registry, ISP continued the transfer of over \$700,000 in unidentified client contributions to the proper CPP contributor's accounts.

Personalised statements of CPP contributions

Many CPP contributors obtain information regarding their personal CPP account and CPP benefits when they: receive a personalised Statement of Contributions in the mail; visit an HRDC information kiosk at various public events; or visit the CPP website on the Internet.

This year more than 2.1 million personalised Statements of Contributions were mailed to CPP contributors between the ages of 30 to 39 and 50 to 59. For the first time, these statements were accompanied by information on both OAS and CPP to assist Canadians with their retirement planning.

The number of contributors HRDC staff met directly, to provide information on individual CPP contributions and benefits, tripled (to 25,000).

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Of these, more than 7,500 contributors were provided with personal Statements of Contribution on the spot. To facilitate access, a contributor can now apply for a statement of contributions on the CPP Internet site.

In conjunction with the Social Insurance Registry and other parties HRDC is working to help resolve issues noted in the Auditor General's 1998 Report on the Social Insurance Number (SIN).

Ensuring Program Integrity

In order to preserve the integrity of the CPP for future clients, HRDC periodically reviews the program to ensure that only those who qualify receive benefits. In 1998-99, HRDC reviewed a random sample of CPP files selected from the

1997 payment year. This annual review provides HRDC with an estimate of the monetary errors in the CPP program.

An analysis of this data indicates that the amount of CPP dollars mispaid due to internal or external errors or fraud is most likely to be 0.37 percent of the total CPP benefit expenditures, or \$55.6 million.

In order to improve this situation, HRDC has initiated six reviews that focus on early identification of errors in specific areas of risk to the CPP program.

Table 21 summarizes the preliminary results of five of the six reviews that have identified approximately \$2.5 million in potential savings to the CPP. The results of the sixth review have not yet been tabulated.

Table 21 - SUMMARY OF CPP REVIEWS

CPP Benefit(s) Targeted	Risk Assessed	Potential Savings to the CPP
Disabled Contributors Child Benefit over 18 (DCCB+18)	Identified beneficiaries who were in receipt of a DCCB + 18, were over 18 years of age, and were no longer in full-time attendance at a recognized institution, thus making them ineligible to receive this benefit.	\$450,000
Survivor benefits received by clients under 45 years of age (SVR under 45).	Identified SVRs under 45 receiving full rate benefits to which they were not entitled since they did not have dependent children or were not disabled for CPP purposes.	\$15,507
All CPP benefits	Compared the OAS and CPP system files correcting any date of birth and date of death discrepancies.	\$545,087
All CPP benefits	Identified those CPP clients who were listed as deceased in RC records (data based on 1997 and previous tax years) and yet continued to be considered alive and receiving a benefit according to CPP records.	\$1,108,412
CPP Survivor benefits	Identified the extent of error in the CPP survivor population due to the failure to assess survivor benefits already paid by QPP.	\$353,197
Total		\$2,472,203

In 1998-99, the CPP referred 52 cases of suspected fraud to the RCMP for criminal investigation, with a total potential saving to the CPP of \$1,046,933. Twenty-nine of these referrals related to the CPP disability benefit. In the same fiscal year, 22 people were convicted, under the Criminal Code of Canada, of defrauding the CPP. Approximately \$408,721 was recovered in 1998-99, including CPP fraud cases from previous years. Collection of overpayments continues.

The newly expanded ISP investigation function implemented in November 1998 will assist in maintaining the integrity of the CPP by investigating cases of potential abuse and fraud. In addition, recent amendments to the CPP, which although not yet in force, will eventually allow ISP to lay administrative penalties against those individuals who knowingly abuse the CPP program.

Managing Accounts Receivable

HRDC continues to manage accounts receivable. In 1998-1999, HRDC Collection Services recovered \$8.4 million in cash repayments for which benefit overpayment had been identified. In addition, \$19.3 million were withheld from current benefits, resulting in \$27.7 million, being returned to the CPP.

Systems Support

CPP Systems - Y2K Compliant

On December 11 1998, CPP systems were certified Year 2000 (Y2K) compliant. This means that approximately 4 million Canadians who receive monthly CPP benefits will continue to receive those benefits, unaffected by the Y2K issue. To attain Y2K certification the CPP Systems required modifications to accommodate the storage and processing of data for the year 2000 and beyond. This process involved numerous software and hardware upgrades, extensive testing of all changes, as well as a freeze on all non-essential system changes that did not fall within the scope of Y2K.

Other major projects completed during 1998-99 are cited below.

- The Business Number project implemented by Revenue Canada required that CPP Systems be modified to accommodate the 15 digit business identifier numbers that replace the old 9 digit payroll deductions accounting employer codes.
- The SIN manipulation project is a major data cleanup effort between CPP and RC that resulted in approximately 700,000 corrections to contributor record of earnings. Around 140,000 of those entries were for accounts with a current or previous benefit. In some cases, recalculations were done resulting in adjustments to benefits. The systems component of this project is complete.

In the year to come, CPP systems will be moved to a newer certified programming language in order to improve performance and ensure continued manufacturer support. Work will continue on minor enhancements that do not impact upon Y2K preparedness. CPP will also continue to explore areas of co-operation with partners to ensure enhanced standardised data exchanges.

The Reporting Database

The Reporting Database provides operational and management reporting and decision support information such as business measures. While not program specific, the database supports CPP functions.

In 1998-99, the system was developed to the point of being able to extract specific information and reports on CPP data, Client Service Centre processing data and all address data. Since old programming methods are no longer required, the length of time needed to extract this information is significantly reduced. In November 1998, the first business measurement functions were implemented

providing counts of account maintenance activities and application processing times. Mechanisms are now in place to facilitate the production of reports on business measures for CPP, OAS, International Benefits and telephone service. Service targets for application processing times will be determined in consultations with clients during 1999-2000. Once identified the system will compare actual application processing times to the ideal, or targeted, processing times producing performance measures.

Communicating with Clients

In 1998-99, HRDC's communications team made a concerted effort to ensure Canadians were informed about the CPP disability program through questions and answers, presentations, and several new publications. Using this approach, HRDC hopes to give Canadians a greater understanding of the disability program, how it works, and how it relates to other private and public disability benefit programs.

In addition, HRDC continued to communicate with Canadians on recent CPP rule changes as well as the CPP as a component of the public pension system and an important aspect of retirement planning. This on-going communications activity brought to light a need for more and better information on the CPP and other public retirement benefits. In 1999-2000 HRDC will launch a major information campaign which will speak to people of all ages about Canada's retirement income system and the role the CPP plays.

Splitting Pension Credits

The CPP allows contributors to split their accrued pension credits between spouses upon the dissolution of their marriage or common law relationship.

In partnership with Justice Canada, Human Resources Development Canada (HRDC) provided divorcing couples with credit splitting information kits between 1993 and 1998 issuing more than 10,000 kits each month. During that period, the take-up for credit splitting rose from 5 percent to 16 percent of the divorced population. The information program ended in 1998 and now, provincial courts send information about credit splitting (provided by HRDC) directly to divorced couples with their divorce judgment documents.

Outreach Program

HRDC has a comprehensive Outreach program to support the department's efforts to improve awareness and knowledge of CPP and OAS programs, as well as demonstrate how those programs fit into Canadians' overall retirement planning. Outreach activities include holding program information sessions with a wide array of public and private organization and partners.

Outreach continues to develop and maintain partnerships in the following areas: financial/ investment planning, educational institutions, community leaders, service providers, provincial and municipal governments, and within HRDC.



Current initiatives are:

- A national disability presentation package to be used in public education initiatives with partners and advocacy groups.
- A partnership with the Saskatchewan Public Legal Education Association to develop a booklet on the subject of older adults and the law.

Initiatives under development are:

- A partnership framework in order to prioritize and set objectives for targeting specific national partners.
- A brochure outlining outreach services for our various partners, e.g. Financial Planners.
- A video to celebrate the legacy of our programs and the changing role of government in relation to the retirement income system.
- A national education strategy aimed at introducing CPP and the retirement income system to youth.
- A partnership with Manitoba Worker's Compensation to develop a joint publication concerning CPP disability and injury claim benefits.

Access to Information and Privacy

The Privacy Act protects the privacy of individuals with respect to personal information about themselves held by a government institution. The Access to Information Act provides individuals with the right to access the information in records kept by federal institutions and the right to correct such information. In 1998-99, 94 percent of all privacy requests in HRDC were submitted either by or on behalf of CPP contributors.

Establishing Information Sharing and Reimbursement Agreements

The Department continues to pursue opportunities for information sharing and reimbursement agreements between the CPP and the provincial governments, municipal authorities and private insurers.

In 1998-99, there were 14 agreements in place with provincial governments. These agreements related to information sharing and the reimbursement of retroactive CPP benefit payments to provincial authorities who made social assistance payments to persons subsequently eligible for CPP benefits. Other agreements are presently being negotiated. In addition, five agreements were entered into with provincial Workers' Compensation Boards in relation to information sharing.

The 40 current agreements with private insurers allow them to be reimbursed for that portion of the disability benefit that would not have been payable had the client been in receipt of CPP benefits.

Changes to Legislation and Regulations

Bill C-2, An Act to establish the CPP Investment Board and to amend the CPP and the OAS Act and to make consequential amendments to other Acts, being Chapter 40 of the Statutes of Canada 1997, received Royal Assent on December 18, 1997. In order to reflect the purposes and provisions of the amended legislation governing the OAS Act and the CPP (Part II), the relevant Regulations had to be amended. These Regulations were pre-published in Part 1 of the Canada Gazette on February 6, 1999. They will become effective on the day of their registration in Part II of the Canada Gazette.

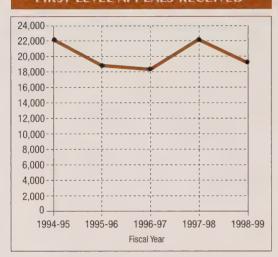
Changes to the CPP Regulations under Part I were required to reflect the increase in the contribution rate and the year's maximum pensionable earnings, effective January 1, 1999. Also effective January 1, 1999, changes were made to the Regulations in relation to pensionable employment.

Appealing a Decision

Individuals who are dissatisfied with a decision made on an application for CPP benefits have three opportunities to request a review of the decision. Close to 95 percent of all requests for review concern an application for disability benefits.



Table 22 – NUMBER OF DISABILITY FIRST LEVEL APPEALS RECEIVED



First Level Appeals involve a request to the Minister for a "reconsideration" or administrative review of a decision concerning a benefit or a division of pension credits. A request must be made to the Minister within 90 days of receiving the initial decision. A departmental adjudicator who was not involved in the initial decision then carries out a review of the file. In 1998-99 the number of new disability applications declined hence there was a corresponding decrease in the number of requests for reconsiderations received, from 22,349 in 1997-98 to 19,200 in 1998-99. (See Table 22)

In the same period, the number of denials on reconsiderations remained constant at 72 percent.

The preliminary results of the CPP appellant profile review provided information on the broad characteristics of the appellant population. To help ensure the program remains responsive to appellant needs, obtaining additional and regular information on the appellant population, and on grant and denial trends continued to be a priority in 1998-99.

Second Level Appeals, or hearings by a Review Tribunal, are available to individuals dissatisfied with decisions rendered at the reconsideration level. A Review Tribunal is an independent body that does not act on behalf of the Minister, the appellant or any other party to an appeal. Each Review Tribunal consists of a panel of three qualified persons selected by the Commissioner of Review Tribunals from a panel of 100 to 400 members who are appointed by Orders-in-Council. The chairperson is always a member of the legal profession. If a disability benefit is involved, as in over 95 percent of the cases heard, at least one of the other members is a health care professional. Hearings are informal, closed to the public and usually held in, or near the appellant's community. Table 24 provides an overview of the workload of Review Tribunals during the fiscal year ending March 31, 1999.

The Office of the Commissioner held 9,607 hearings, surpassing its goal of 9,600 hearings for 1998-99. This achievement was attributable in part to the greater number of panel members available.

Table 23 - FIRST LEVEL APPEALS - GRANTS VERSUS DENIALS

	1996–97	1997–98	1998-99
Disability benefit granted	5,496	7,144	6,317
Disability benefit denied	18,826	19,034	16,135
Percentage of benefits awarded at appeal	23%	27%	28%



Table 24 - REVIEW TRIBUNAL, SECOND-LEVEL APPEALS

Description	1996–97	1997–98	1998–99*	% increase over previous year
Cases slated for tribunal hearings			17,677	0.67%
Cases withdrawn/reversed			2,005	
prior to hearing				
Total cases sent for Hearings	12,269	15,567	15, 672	
Hearings Completed				
Appeals allowed	1,385	1,864	2,195	
Appeals dismissed	4,744	5,839	6,475	
Hearings not Completed				
Hearings adjourned/postponed	265	329	598	
Appeals withdrawn at hearing			28	
Decision made but not finalized			311	
Total Hearings Held	6,394	8,032	9,607	19.6%
Cases outstanding at year end (includes hearings adjourned)	6,095	7,864	6,663	-15.2%

The office of the Commissioner of the Review Tribunal has a new automated appeal tracking system that enables a more precise breakdown of the 1998-99 appeals.

TABLE 25 - PENSION APPEALS BOARD, THIRD-LEVEL APPEALS

Description	1996–97	1997–98	1998-99
Workload – April 1st	1,086	1,982	4,020
Incoming workload	1,790	3,070	2,879
Decision rendered	894	1,032	2,932
(includes leave refused)			
Cases pending at year end	1,982	4,020	3,967

28/99

At fiscal end 1998-99, 6,663 cases were outstanding compared to 7,864 at the end of 1997-98. As of March 31, 1999 all of the 6,663 appellants had been contacted and hearings arranged for April 1999 and onwards. A significant number of cases have been delayed at the request of appellants or their representatives. It is expected that, in 1999-2000, there will be some 10,000 hearings at the Review Tribunal, and cases outstanding at year-end will be reduced considerably.

Third Level Appeals are heard by the Pension Appeals Board (PAB), which consists of judges appointed by Order-in-Council. Board decisions are binding, and may be subject to judicial review by the Federal Court.

The large number of appeals at the first and second levels is having a significant impact on the caseload and number of unheard cases. Table 25 provides an overview of the PAB 1998-99 CPP workload.

Charter Challenges

The CPP has been the subject of a number of challenges under the Canadian Charter of Rights and Freedoms. The Charter challenges against the CPP primarily involve the provisions for survivor benefits and disability benefits. The major issues raised are:

 whether or not survivor benefit provisions are discriminatory (same-sex partners are not entitled to survivor benefits); and whether persons under 35 years of age who are not disabled and have no dependent children are ineligible.

There were approximately 35 cases in the CPP appeal process as of March 31, 1999.

On March 25, 1999, the Supreme Court of Canada rendered a unanimous decision that the CPP does not discriminate against widows and widowers under the age of 45 on the basis of age.

During 1998-99, there were three cases before the Court that argued that ineligibility to receive CPP survivor benefits by same sex partners is discriminatory. One case's hearing date was scheduled for September 7, 1999 but the Government conceded in that case. As for the other 2 cases, they are still pending. Another case before the Supreme Court alleges that the CPP discriminates by not allowing contributors to deduct from their contributory period those months in which they were in receipt of total temporary benefits under a provincial Workers' Compensation scheme. This case was heard November 10, 1999 and the decision is pending.

Canada's International Social Security Agreements

Social security agreements protect the pension rights of persons who move from one country to another to live or work. The Canadian programs included in agreements are the CPP and OAS.

The basic objectives of agreements are to:

 reduce or eliminate restrictions, based on citizenship, that prevent Canadians from

Table 26 – CPP BENEFITS UNDER SOCIAL SECURITY AGREEMENTS

Calendar year	Number of benefits in pay in month of December	Total benefits paid annually (in thousands)
1997	4,340	\$13,039
1998	4,604	\$13,298



- receiving pensions from another country;
- permit continuity of social security coverage when a person is temporarily working in another country, and prevent situations where a person must contribute to the social security programs of two countries for the same work;
- make it easier to become eligible for benefits by adding together creditable periods under the schemes of two or more countries; and
- reduce or eliminate restrictions on the payment of pensions abroad.

As of March 31, 1999 Canada had agreements in force with 35 countries. Agreements with Croatia, Korea, Morocco, Slovenia, Trinidad and Tobago and Turkey had been signed, but were not yet in force. There were agreements under negotiation with Argentina, the Czech Republic, Israel, Poland, Slovakia and Uruguay. Table 26 outlines the number and amount of benefits paid under social security agreements for 1997 and 1998.

In 1997, the last year for which information is available, the total amount of foreign pension

funds that came into Canada from other countries exceeded \$1.4 billion. By contrast, about \$353 million was paid in OAS and CPP benefits to persons living outside Canada, a ratio of about 4:1 in Canada's favour. Specific to the social security agreements in force, the ratio of benefits coming into Canada versus those being paid out is 6:1.

Partnership with the Quebec Pension Plan (QPP)

The CPP and the QPP meet regularly to discuss issues of common concern, with emphasis on the more than 1.7 million Canadians who contribute to both plans (called dual contributors) including those 130,000 dual contributors currently in receipt of benefits. The two administrations enter into agreements to regulate the flow of work, to deal with legislative changes or differences, and to address operational matters.

In 1998-99, the two administrations focused on implementing the 1998 legislative changes made to both plans and improving service for dual contributors who were dividing their pensionable earnings.

PAYMENTS AND SUPPORT SERVICES

In 1998-99, Public Works and Government Services (PWGSC) issued 39.9 million payments compared with 39.4 million in 1997-98 and 37.8 million in 1996-97.

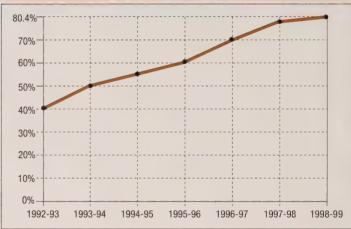
The percentage of benefit recipients who have chosen direct deposit continues to grow as illustrated in Table 27.

During the 1998-99 fiscal year, 32 million payments were issued as direct deposit payments compared with 30.4 million in 1997-98.

PWGSC has traditionally issued CPP tax information slips.

However, the legibility of those slips was inadequate. In 1998-99 Canada Post produced the annual run slips. This process provided recipients with clearer information and allowed the inclusion of

Table 27 – PERCENT OF CPP CLIENTS PAID BY DIRECT DEPOSIT



additional useful information. The process will be expanded in 1999. A summary of tax information slips issued annually in February is presented in Table 28.

Table 28 - TAX INFORMATION SLIPS ISSUED (ANNUAL RUN)

	By PWGSC	By Canada Post
1996-97	3,426,993	-
1997-98	3,607,396	-
1998-99	107,000	3,404,328





THE CANADA PENSION PLAN

Statement of revenue, Expenditures and Balance

FOR THE YEAR ENDED MARCH 31, 1999



MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The following financial statements have been prepared by management of the Department of Human Resources Development in accordance with the accounting policies set out in Note 2 to the financial statements. The integrity and objectivity of the data and estimates in these financial statements are management's responsibility. Management is also responsible for all other information in the Annual Report of the Canada Pension Plan and for ensuring that this information is consistent, where appropriate, with the information contained in the financial statements of the Canada Pension Plan.

In support of its responsibility, management has developed and maintains books of account, financial and management controls, information systems and management practices. These are designed to provide reasonable assurance as to the reliability of financial information, and to ensure that transactions are in accordance with the Canada Pension Plan (the Act) and Regulations, as well as the Financial Administration Act and Regulations.

The Auditor General of Canada, the external auditor of the Canada Pension Plan, audits the financial statements and reports to the Minister of Human Resources Development.

Serge Rainville
Assistant Deputy Minster

Financial and Administrative Services

Claire M. Morris Deputy Minister







AUDITOR GENERAL OF CANADA

VERIFICATEUR GÉNÉRAL DU CANADA

AUDITOR'S REPORT

To the Minister of Human Resources Development

I have audited the statement of revenue, expenditures and balance of the Canada Pension Plan and the statement of disposals, re-investments and balance of the Canada Pension Plan Investment Fund for the year ended March 31, 1999. These financial statements are the responsibility of the management of the Department of Human Resources Development. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the balances of the Plan and the Investment Fund as at March 31, 1999 and the results of operations of the Plan and the disposals and re-investments of the Investment Fund for the year then ended in accordance with the accounting policies set out in Note 2 to the financial statements.

L. Denis Desautels, FCA Auditor General of Canada

Ottawa, Canada July 23, 1999



STATEMENT OF REVENUE, EXPENDITURES AND BALANCE FOR THE YEAR ENDED MARCH 31, 1999

(IN MILLIONS OF DOLLARS)

	1999	1998
Revenue		
Contributions (Note 3)	14,800	12,790
Investment income (Note 4)	3,926	3,950
	18,726	16,740
Expenditures		
Pensions and benefits (Note 5)		
Retirement	12,381	11,827
Disability	2,579	2,542
Survivor	2,561	2,447
Disabled Contributor's Child	248	250
Death	224	269
Orphan	202	202
	18,195	17,537
Administration costs (Note 6)	304	298
	18,499	17,835
Excess of Revenue over Expenditures (Expenditures over Revenue)	227	(1,095)
Balance at beginning of year	36,664	37,759
Balance at end of year	36,891	36,664
Represented by:		
Canada Pension Plan Investment Fund (Note 7)	30,833	32,459
Canada Pension Plan Investment Board (Note 8)	12	ten.
Canada Pension Plan Account (Note 9)	6,046	4,205
	36,891	36,664

Contingencies (Note 10)

The accompanying notes are an integral part of these financial statements.

Approved by the Department of Human Resources Development:

Serge Rainville
Assistant Deputy Minster
Financial and Administrative Services

Claire M. Morris Deputy Minister



CANADA PENSION PLAN NVESTMENT FUND STATEMENT OF DISPOSALS, RE-INVESTMENTS AND BALANCE FOR THE YEAR ENDED MARCH 31, 1999 (IN MILLIONS OF DOLLARS)

	Balance at beginning of of year	Disposals	Re-investments	Balance at end of year
Investment in securities				
(Note 7)				
Newfoundland	673	37	2	638
Prince Edward Island	149	8	-	141
Nova Scotia	1,214	68	27	1,173
New Brunswick	896	53	NA.	843
Quebec	103	6	-	97
Ontario	14,106	916	45	13,235
Manitoba	1,698	99	ma .	1,599
Saskatchewan	1,453	76	=	1,377
Alberta	4,172	177	~	3,995
British Columbia	4,535	261	13	4,287
Yukon Territory	4	-	**	4
	29,003	1,701	87	27,389
Canada	3,456	12	-	3,444
	32,459	1,713	87	30,833

The accompanying notes are an integral part of these financial statements.

Approved by the Department of Human Resources Development:

Serge Rainville
Assistant Deputy Minster
Financial and Administrative Services

Claire M. Morris Deputy Minister



NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 1999

1. DESCRIPTION OF THE CANADA PENSION PLAN

a) General

The Canada Pension Plan began in 1966. It is a compulsory and contributory social insurance program operating in all parts of Canada, except Quebec, which operates a comparable program. The Plan's objective is to provide a measure of protection to workers and their families against the loss of earnings due to retirement, disability or death.

b) Establishment and authority

The Canada Pension Plan (CPP) is a federal/provincial plan established by act of Parliament in 1965.

The Minister of Human Resources Development is responsible for the administration of the act governing the Canada Pension Plan (the Act), other than collecting contributions, which is the responsibility of the Minister of National Revenue. The Minister of Finance and his provincial counterparts are responsible for setting CPP contribution rates.

The Canada Pension Plan Account (the Account) was established in the accounts of Canada by the Act, to record the contributions, interest, pensions, benefits and administration costs of the Plan. It also records the amounts transferred to or received from the Canada Pension Plan Investment Fund and the Canada Pension Plan Investment Board. The authority to spend is limited to the balance of the Account.

The Canada Pension Plan Investment Fund (the Fund) was established in the accounts of Canada by the Act, to record the investment in securities of provinces, territories and Canada.

The Canada Pension Plan Investment Board was established by act of Parliament in 1997. The Board was created in 1998 to help the CPP achieve its steady-state funding by earning investment returns on funds transferred from the CPP Account.

The CPP, which is under joint control of the Government of Canada and participating provinces, is not considered to be part of the reporting entity of the Government of Canada. Accordingly, its financial activities are not consolidated with those of the Government.

c) Financing

CPP is financed by contributions and investment returns.

Employers and employees pay contributions equally to the CPP. Self-employed workers pay the full amount.

CPP was designed to be financed on a pay-as-you-go basis, which means that the Plan would operate on a current basis with pensions and benefits being paid out of current contributions. With changes made to the Act in 1997, CPP is now intended to be funded on a 'steady-state' basis – that is, combined contributions are planned to increase to 9.9% of pensionable earnings by 2003 and are then expected to level off.

From 1966 to 1986, the combined employer-employee contribution rate remained at 3.6% of pensionable earnings. In 1987, it was raised to 3.8% and has increased yearly by 0.2% to reach 5.6% in 1996. In 1997 and 1998, the combined contribution rate was increased by 0.4% to reach 6.0% and 6.4% respectively and in 1999, it was increased by 0.6% to reach 7%. The maximum combined contributions are \$2,138 for 1998 and \$2,373 for 1999.

The Act provides that an actuarial report shall be prepared every three years for purposes of the contribution rates review by the Minister of Finance and his provincial counterparts. The Seventeenth Actuarial Report of the Chief Actuary of the Office of the Superintendent of Financial Institutions was tabled in the House of Commons in December 1998. Discussions between the federal and provincial ministers of Finance are under way to determine whether benefits or contribution rates or both should be changed.

As stated in the Act, changes to contribution rates require the approval of at least two-thirds of the provinces having in the aggregate not less than two-thirds of the population of all included provinces.

d) Investments

The balance in the CPP is composed of deposits, short term and long term investments and net assets of the CPP Investment Board. The balance is anticipated to increase to and be maintained at, over time, approximately five times the annual payments projected for the following year.

Until 1997, cash on hand in excess of the three-month operating requirement was invested entirely in provincial, territorial and federal government bonds. When these bonds matured, funds not required for payment of pensions and benefits were re-invested in new bonds.

Starting in 1998, a maturing provincial or territorial bond may be re-invested in a new bond only once for a term of 20 years if both, the issuer asks to do so and the operating balance is sufficient to pay current pensions and benefits. Excess funds not re-invested are transferred to the CPP Investment Board. The Board is mandated to invest these funds in a manner to increase the long-term value of the CPP assets through prudent participation in capital markets. The bond portfolio is administered by the federal Department of Finance.

e) Pensions and benefits

Retirement Pensions – A retirement pension is payable to each contributor at age 60 or older, according to the provisions of the Act. The monthly amount is equal to 25% of the contributor's average monthly pensionable earnings during the pensionable period. The amount may be reduced or increased depending upon whether the contributor applies for a retirement pension before or after age 65. This adjustment cannot exceed 30%. The maximum monthly pension payable at age 65 in 1999 is \$751.67.

Disability benefits – A disability benefit is payable to a contributor who is disabled, according to the provisions of the Act. The amount of the disability benefit to be paid includes a flat-rate portion and an amount equal to 75% of the earned retirement pension. The maximum monthly disability benefit in 1999 is \$903.55.

Survivor's benefits – A survivor's benefit is payable to the surviving spouse of a deceased contributor, according to the provisions of the Act. For a spouse under the age of 65, the benefit consists of a flat-rate portion and an amount equal to 37.5% of the deceased contributor's earned retirement pension. A surviving spouse between the ages of 35 and 45 who is not disabled or who has no



dependent children receives reduced benefits. For spouses aged 65 and over, the benefit is equal to 60% of the retirement pension granted to the deceased contributor. The maximum monthly benefit payable to a surviving spouse in 1999 is \$451.00.

Disabled contributor's child and orphan benefits – According to the Act, each child of a contributor who is receiving disability benefits or who died is entitled to a benefit as long as the child is under the age of 18, or is between the ages of 18 and 25 and attending school full-time. The flat-rate monthly benefit in 1999 is \$171.33.

Death benefits – According to the Act, a death benefit is a one-time payment to, or on behalf of, the estate of a contributor. The benefit amounts either to 10% of the maximum pensionable earning in the year of death or six times the monthly retirement pension granted to the deceased contributor, whichever is less. The maximum death benefit in 1999 is \$2,500.

Pensions and benefits indexation – As required by the Act, pensions and benefits are indexed annually based on the Consumer Price Index for Canada. The rate of indexation for 1999 is 0.9%.

2. ACCOUNTING POLICIES

The CPP financial statements report the financial activities of the CPP Account, the CPP Investment Fund and the CPP Investment Board.

The financial transactions affecting the Account and the Fund are governed by the Act governing the Canada Pension Plan and its regulations. The Investment Board's transactions are governed by the Canada Pension Plan Investment Board Act and the accompanying regulations.

The Act does not require that the pensions and benefits be prefunded. Accordingly, the financial statements do not provide information on the adequacy of the balance in the CPP to meet, on an actuarial basis, the future obligations of the CPP.

- a) Contributions are recorded when funds are received from Revenue Canada. As stated in Note 3, funds transferred by Revenue Canada are estimated and are subject to review and adjustments. Adjustments, if any, are recorded as contribution revenue in the year the funds are received or reimbursed.
- b) Pensions and benefits are recorded when paid.
- c) Administration costs are recorded on a modified cash basis of accounting. This basis of accounting allows the recording of amounts paid in a specific period after year-end.

d) Investments:

CANADA PENSION Plan Account and Investment Fund

Securities are shown at cost, which is equal to the face value at the time of purchase. Interest revenues are recorded when received.

CANADA PENSION PLAN INVESTMENT BOARD

The balance is stated at the value of the Investment Board's net assets as at March 31. Investment income is the Board's net income from operations. This is determined based on income from interest, realized and unrealized gains less investment and administrative expenses.



3. CONTRIBUTIONS

The Department of Finance estimates annual contributions based on an estimate of pensionable earnings. The calculation of pensionable earnings is based on a formula using many factors such as the growth in the number of contributors and in the average pensionable earnings. Although the Department of Finance uses recent data and statistics in the calculation, a variation may occur in the factors used to estimate the pensionable earnings. For example, a variation of one percentage point in the number of contributors or in the average pensionable earnings for 1998, would result, in each case, in a change of \$142 million in estimated contributions.

Revenue Canada transfers contributions to CPP based on the Department of Finance's estimate of contributions to be collected for a calendar year as well as its own contribution collection schedule for the year. Actual pensionable earning and contribution amounts for 1998 and 1999 will only be known once Revenue Canada has processed all employers' and self-employed workers' declarations of contributions for 1998 and 1999.

Adjustments, if any, are recorded in the year in which the funds are received or reimbursed. The reimbursements for 1997 and preceding years, paid in 1999 amounted to \$5 million (reimbursement of \$145 million in 1998).

4. INVESTMENT INCOME (in millions of dollars)

	1999	1998
Interest on investment in long term securities		
Provinces and Yukon Territory	3,277	3,431
Canada	353	354
	3,630	3,785
Interest on deposit with the Receiver General for Canada, at a		
weighted-average rate of 4.80% (3.53% in 1998).	261	158
Interest on short term investments (3 month term) with Canada,		
at a weighted-average rate of 4.87% (2.97% in 1998)	35	7
Investment Board net income from operations	1	-
The second secon	3,926	3,950

[†] The investment board's investment activities commenced with the receipt of the first transfer from CPP on March 1, 1999. The investment income of \$200,000 reflects only one month's activity.

5. PENSION AND BENEFIT MISPAYMENTS

Given the nature of the Plan and the number of applicants and beneficiaries, from time to time overpayments and underpayments of pension and benefit payouts may be made. Such "mispayments" occur more frequently for disability benefits. There is greater subjectivity in the adjudication of these applications and, once accepted, beneficiaries must continue to meet the eligibility criteria.



Management of the Canada Pension Plan periodically undertakes a study of the extent and nature of pension and benefit mispayments. The most recent study, which is based on the 1997 payment year, estimates through statistical extrapolation, that the most likely value of undetected mispayments is \$55.6 million. This includes underpayments of \$36.6 million and overpayments of \$19 million.

Disability mispayments, based on a review of 89% of the accounts selected as the study sample, have a most likely value of \$14.7 million in undetected mispayments, which include underpayments of \$7.5 million and overpayments of \$7.2 million.

The results of the previous study, which was based on the 1996 payment year have been revised to reflect a higher completion rate for Disability accounts (originally 86.4%, now at 98%). The most likely value of undetected mispayments for Disability accounts is now estimated at \$43.3 million (compared with the \$23 million reported in the 1997/98 Financial Statements) of which underpayments represents \$14.1 million (\$8 million originally) and overpayments \$29.2 million (\$15 million originally). This increase in Disability's most likely value of undetected mispayments raises the overall estimated mispayment value for the entire CPP benefit population from \$40 million to \$60.3 million for the 1996 payment year.

Management has taken several initiatives to improve the administration of the Plan. Treasury Board has approved \$268 million for 1997 and subsequent years for implementation of key initiatives.

Work currently under way includes the following:

- implementation of a quality assurance program;
- significant increases in the number of reassessments, verifying the continuing eligibility of beneficiaries; and,
- introduction of a new procedures used by the annual study on the extent and nature of pension and benefit mispayments.

6. ADMINISTRATION COSTS (in millions of dollars)

	1999	1998
Pension and benefit delivery, accomodation and		
corporate services (Human Resources Development Canada)	206	204
Collection of contributions (Revenue Canada)	76	75
Cheque issue and computer services		
(Public Works and Government Services Canada)	14	17
CPP Investment Board	6	-
Actuarial services		
(Office of the Superintendent of Financial Institutions)	1	1
Investment Services (Department of Finance)	1	. 1
	304	298

Administration costs of the Account represent the cost of services received from a number of federal government departments, an agency and a board. Those costs are charged to the Account in accordance with memoranda of understanding.



7. INVESTMENT IN SECURITIES

The amounts invested by CPP in long-term securities of provinces, territories and Canada constitute the Canada Pension Plan Investment Fund.

Until the end of 1997, the investments in provincial, territorial and federal government securities were made with the cash on hand in excess of the three-month operating requirement. These securities were non-negotiable and had a 20-year term or less as fixed by the Minister of Finance on the recommendation of the Chief Actuary of the Office of the Superintendent of Financial Institutions. The interest rate on the securities was determined by the Minister of Finance based on the average yield to maturity of all outstanding Government of Canada obligations with terms of 20 years or more.

Starting in 1998, the existing securities held by the CPP Investment Fund may be re-invested at maturity, either wholly or in part, if both, the issuer asks to do so and the operating balance is sufficient to pay current pensions and benefits. To the extent that the issuer does not replace the matured securities and the funds are not required by the CPP, the proceeds are transferred to the CPP Investment Board.

When a matured security is re-invested, the replacement security has a term of 20 years. The replacement securities are non-negotiable and bear interest at a rate fixed by the Minister of Finance. The interest rate is substantially the same as the interest rate that the province would pay if it were to borrow the same amount for the same term through the issuance of a security on the public capital market.

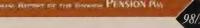
All disposals of securities are made, at maturity date, at face value. Interest earned on the investments is credited semi-annually to the Account.

At March 31, 1999, the balance in the Investment Fund was \$30.8 billion at cost (\$32.5 billion in 1998). The fair value of the balance in the Fund is estimated at \$42 billion (\$44 billion in 1998). This estimate is based on the present value of the contractual cash flows discounted at rates currently available for similar investments.

The following schedule presents the classification of securities by maturity dates and the weighted average annual rate of return on securities currently held.

(in millions of dollars)

	March 31, 1999		March 31, 1998	
	Investment at cost	Investment Average	Investment	Average
		at cost yield	yield	at cost
Investments maturing:				
Within 1 year	1,880	10.48%	1,645	9.53%
1 - 5 years	9,224	13.65%	8,674	13.48%
Over 5 years	19,729	10.50%	22,140	10.66%
Total - Investments	30,833		32,459	
Weighted average yield on investments		11.44%		11.36%



8. CANADA PENSION PLAN INVESTMENT BOARD

The legislation establishing the Canada Pension Plan Investment Board came into force on April 1, 1998. The purpose of the Board is to invest the funds transferred by the CPP in a diversified portfolio of securities. The Board is designed to operate at arm's length from the government and it is required to be accountable to the public, the Minister of Finance and his provincial counterparts through regular reports.

In March 1999, the CPP Account made an initial transfer of \$11.9 million to the Board for investment purposes. The Board's investments are distributed between Canadian and non-Canadian equities (82% and 18% respectively). The estimated fair market value of these investments as at March 31, 1999 was \$12.1 million.

During the year, CPP also transferred to the Investment Board \$6 million for start-up costs, as provided by the legislation. The Board will repay CPP \$4.9 million later in 1999.

9. CANADA PENSION PLAN ACCOUNT (in millions of dollars)

The balance of the Account includes:

	March 31, 1999	March 31, 1998
Deposit with Receiver General for Canada	5,427	4,205
Short-term investments	619	-
	6,046	4,205

The carrying value of short-term investments approximates fair value at year-end.

10. CONTINGENCIES

At March 31, 1999, there were 16,084 (21,980 in 1998) appeals relating to the payment of CPP pensions and benefits. Claims for these appeals could reach a maximum of \$29 million (\$55 million in 1998).

Any claims resulting from the resolution of these appeals will be accounted for as an expenditure of the period in which the claim is paid.

11. UNCERTAINTY DUE TO THE YEAR 2000 ISSUE

The year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date.



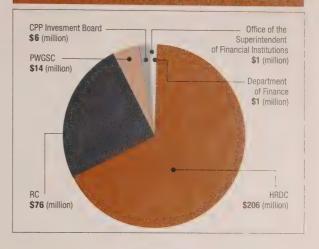
The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the possible impacts on operations and financial reporting may range from minor errors to significant systems failure which if not addressed could affect CPP's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting CPP, including those related to the efforts of a number of federal government departments and an agency providing services to CPP, or other third parties, will be fully resolved.



DEPARTMENTAL RESPONSIBILITIES AND SERVICE COSTS

It cost approximately \$304 million to administer the CPP in 1998-99. This amount is shared by a number of federal departments, an agency and a board who are responsible for delivering CPP services. Human Resources Development Canada (HRDC) accounts for the largest portion at \$206 million; Revenue Canada (RC) required approximately \$76 million; Public Works and Government Services Canada (PWGSC) required \$14 million for services; the CPP Investment Board received \$6 million for initial start-up costs, the Office of the Superintendent of Financial Institutions (OSFI) required \$1 million; as did the Department of Finance.

Table 29 - CPP SERVICE COST DISTRIBUTION



HUMAN RESOURCES DEVELOPMENT CANADA

HRDC's Income Security Programs Branch delivers the CPP to Canadians. HRDC is responsible for:

- providing information about the CPP program;
- · determining benefit entitlement and continuing eligibility for benefits;
- maintaining records and accounts for clients and contributors;
- · providing contributors with information on their earnings, contributions and projected benefits;
- managing an appeals process which includes support to the Review Tribunal and Pension Appeals Board;
- assigning Social Insurance Numbers to individuals and maintaining a Social Insurance Register
 of those names and numbers;
- negotiating and administering International Social Security Agreements for clients living outside Canada and for new Canadians;
- detecting overpayments; and managing accounts receivable.

HRDC Corporate Services provides financial and administrative services including security and internal audit; human resource services; systems; communications; and strategic policy, including program evaluation and legal services. These services support operations across the country, which deliver services to CPP clients and provide program management and direction.

REVENUE CANADA

RC's main activity on behalf of the CPP involves the determination and collection of contributions and related activities. RC is responsible for:

- administering Part I of the CPP legislation, which provides for the collection of contributions from employees, employers and the self-employed. These activities make up about 7 percent of the total funds collected by RC;
- providing reports on the earnings and contributions of contributors as well as statistical and other information;



- providing rulings regarding CPP coverage and contribution requirements;
- providing contributor information to the CPP;
- reconciling T-4s and investigating any discrepancies;
- · maintaining records for remittances, assessments and deposits funds;
- · managing an appeals process on contribution related matters; and
- · providing system and administrative support.

The cost of these services is determined by a formula involving a periodic, detailed cost survey, which measures direct, indirect, and overhead costs. In subsequent years, until a new survey is done, costs will be charged on the existing ratio after adjusting for changes in volume and the wage/price index.

PUBLIC WORKS AND GOVERNMENT SERVICES CANADA

Public Works and Government Services Canada (PWGSC) provides the services listed below. PWGSC is responsible for:

- · issuing payments on behalf of the CPP;
- developing, maintaining and operating supporting information systems to process information on contributor earnings, benefit payments, and program statistics; and
- · providing accommodation and property management.

DEPARTMENT OF FINANCE

The Department of Finance is responsible for:

- leading negotiations with the provinces and all other aspects of the statutory review of the CPP, which results in major changes to the Plan, including contribution rates;
- managing the CPP Investment Fund by investing monies not immediately needed to pay benefits
 in securities of provincial and territorial governments, provincial Crown agencies, or the
 Government of Canada, in accordance with the provisions of the CPP.

After April 1999, the CPP Investment Board will manage funds not immediately needed to pay for benefits.

OFFICE OF THE SUPERINTENDENT OF FINANCIAL INSTITUTIONS

The Chief Actuary is responsible for:

- preparing reports on the financial status of the CPP, for tabling by the Minister of Finance in Parliament every three years in accordance with the CPP legislation;
- preparing estimates on proposed changes to the Plan's provisions for HRDC, the Department
 of Finance, and provincial governments; and
- calculating the effects of any new legislation on the CPP, as requested by the Minister of Finance.





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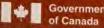






• Annual Report

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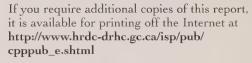
Publications Publications

ANNUAL REPORT OF THE CANADA PENSION PLAN

Fiscal Year 1999-2000

ISPB 202-06-01E

Produced by Human Resources Development Canada in collaboration with: the Department of Finance, Canada Customs and Revenue Agency (CCRA), Public Works and Government Services Canada (PWGSC), and the Office of the Superintendent of Financial Institutions (OSFI)



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Aussi disponible en français sous le titre Rapport annuel du Régime de pensions du Canada 1999-2000

Feedback

To comment on ways to improve the content or format of this report, please fill in the brief questionnaire at www.hrdc-drhc.gc.ca/isp/pub/cpppub_e.shtml, or fill in the questionnaire at the back of this report and fax it to (613) 957-1602.

General Information

For general information about the Canada Pension Plan, please call free of charge: 1-800-277-9914 (English) 1-800-277-9915 (French) 1-800-255-4786 (TDD/TTY)

Or visit the Government of Canada's Income Security Programs website at: www.hrdc-drhc.gc.ca/isp



Her Excellency The Governor General of Canada



May it please your Excellency:

We have the pleasure of submitting the Annual Report of the Canada Pension Plan for the fiscal year 1999-2000.

Respectfully,

/ Paul Martin
Minister of Finance

Jane Stewart

Minister of Human Resources

Development Canada



TABLE OF CONTENTS

EXECUTIVE SUMMARY]
PUTTING THE CANADA PENSION PLAN IN CONTEXT	1
Who Benefits from the Canada Pension Plan?	
FEDERAL-PROVINCIAL REVIEW	3
FINANCING THE CANADA PENSION PLAN	4
Financial Sustainability	ર્વ
Financial Components	
CPP Investment Fund	
CPP Investment Board	
BENEFITS AND EXPENDITURES	10
CPP DISABILITY BENEFITS	16
Application Processing and Decision-Making Communicating More Clearly and More Often	17
Expanding Vocational Rehabilitation	
Client-Centered Service Delivery	
MANAGING THE CANADA PENSION PLAN	21
Administrative Costs	21
Collecting and Recording Contributions	22
Reaching Out to Canadians	24
PARTNERSHIPS PROTECT BENEFICIARIES	32
Canada's International Social Security Agreements	32
Partnership with the Quebec Pension Plan (QPP)	33
Other Agreements	34

SUPPORTING THE PLAN	35
LOOKING TO THE FUTURE	37
APPENDICES	
APPENDIX A: THE CANADA PENSION PLAN FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2000	. 38
APPENDIX B: DEPARTMENTAL RESPONSIBILITIES	52
APPENDIX C: PENSION AND BENEFIT INFORMATION	55
FEEDBACK FORM	59

This report on the Canada Pension Plan (CPP) consolidates input from all departments providing services on behalf of the Plan: Human Resources Development Canada (HRDC), the Department of Finance, Canada Customs and Revenue Agency (CCRA), Public Works and Government Services Canada (PWGSC), and the Office of the Superintendent of Financial Institutions (OSFI).

900

EXECUTIVE SUMMARY

The Canada Pension Plan (CPP), in effect since 1966, is a compulsory earnings-based national plan that provides retirement pensions — as well as survivor, disability and death benefits. It is meant to complement, not replace, personal savings and employment pension plans. During fiscal 1999-2000, more than 3.5 million Canadians received approximately \$18.8 billion, through about four million benefits. Much of the decline in the low-income rate among Canadian seniors in recent decades has been attributed to the existence of public pensions such as the CPP.

A SUSTAINABLE PLAN

By the 1990s, however, the sustainability of Canada's public pension system had become a concern. It became increasingly obvious that the retirement of the large "baby boom" generation would cause strain on the public pension system.

To address these concerns, the federal and provincial governments, after extensive public consultation, adopted a balanced approach to CPP reform so that the Plan could meet the demands of the coming years. These changes involved increasing CPP contribution rates to build up a larger fund while baby boomers are still in the workforce, investing this fund in the markets at arm's length from government for the best possible rate of return, and slowing the growing cost of benefits.

The Plan continues to benefit from the high rates of return for securities that were bought in the early 1980s, when interest rates were relatively high. In 1999-2000, it also benefited from a high rate of return on the CPP Investment Board's assets, with portfolio returns closely matching the rates of return realized on Canadian and foreign-market-based benchmark indexes during the year. The Board has noted that such high rates of return cannot realistically be anticipated over the long term.

However, the new long-term investment strategy improves the diversification of investments. As equities historically have provided higher returns than bonds, this is expected to produce better returns than the previous strategy, which permitted investments in government bonds only. CPP funds managed by the Investment Board are expected to grow rapidly. The government projects that the Board will have assets of \$100 billion under its management within the decade.

The most recent actuarial report, the Seventeenth Actuarial Report on the CPP, was tabled in Parliament in December 1998. The report confirmed that the 9.9 percent combined employeremployee contribution rate, which will be reached in 2003, is expected to be sufficient to sustain the Plan as larger numbers of Canadians reach retirement age.

In December 1999, the federal and provincial Finance Ministers completed their first formal review of the Plan's financial state since the implementation of the 1998 changes. Based on the conclusions of the 17th Actuarial Report, and its review by a panel of independent actuaries, they decided that there was no need to change the schedule of contribution rates.

PLAN ADMINISTRATION

The Canada Pension Plan consists of three financial components: the CPP Account, which contains the Plan's operating balance and short-term investments; the CPP Investment Fund, which records the long-term bond investments; and the CPP Investment Board, the independent ("arm's length") body responsible for investing funds not immediately needed to pay benefits in capital markets.

While the CPP is perhaps best known for its retirement pension benefits, it also administers the biggest long-term disability income program in Canada, and the only public plan that provides coverage regardless of the cause of the disability. The CPP paid out \$2.6 billion in disability-related benefits to 287,000 contributors and \$245 million to 97,000 children of such contributors in 1999-2000. Because of the nature and severity of their medical conditions, most CPP disability beneficiaries are unable to undertake substantially gainful employment. However, a small percentage can return to work when provided with vocational rehabilitation or other support. HRDC provides this support to interested clients, using a case-management approach and working with each beneficiary to develop a customized return-to-work plan. In 1999-2000, the number of people taking advantage of the support services grew from 281 to 476. This growth is expected to continue as more clients become aware of the services available.

Administrative costs for the CPP in 1999-2000 amounted to approximately \$315 million, or 1.68 percent of benefits paid; this compares favourably with administrative costs incurred for other large pension plans and individual RRSPs. The total includes the cost of upgrading the technology that makes delivery of such a program possible.

IMPROVED SERVICE DELIVERY

A major information technology renewal initiative was implemented in 1999-2000 to improve the quality, accessibility and usefulness of management information, thus making decision-making easier and more effective. By giving staff online access to contributors' record-of-earnings information, these changes also improved client service and made adjudicating benefits and

responding to enquiries faster and easier. CPP systems were upgraded well ahead of the Year 2000 transition, and no problems occurred.

In response to observations in the Auditor General's 1996 report on the Plan suggesting that a more formal and systematic quality monitoring process was needed, HRDC revised its quality assurance process to improve the accuracy, speed, and consistency of decision-making throughout Canada.

The improvements were noted: in 1999, the Auditor General pointed out that "the department has expended considerable effort to improve service to clients and manage the CPP Disability program more effectively."

ENSURING PROGRAM INTEGRITY

The Canada Customs and Revenue Agency (CCRA) is responsible for posting CPP contributions on an individual's account through the T4 process. However, the accurate posting of contributions requires that both surname and Social Insurance Number (SIN) match. Discrepancies in these accounts occur each year, primarily because of employer or contributor errors or variations in reporting surnames, SINs, pensionable earnings and/or contributions. A 1999-2000 CCRA review of discrepancies in over 2.4 million T4 records resulted in \$5.8 billion in earnings and \$447 million in contributions being added to client records.

HRDC carries out annual reviews of its CPP files to ensure that benefit amounts are being paid correctly. In 1999-2000, staff reviewed a random sample of CPP files selected from the previous payment year (1998). An analysis of the data indicated that the amount paid as a result of error or fraud was about \$31.3 million, or approximately 0.2 percent of the total paid out in CPP benefits. Similarly, out

of \$2.5 billion in disability benefit payments, some \$20 million, or about 0.9 percent, had been paid out in error. These results fall within statistically acceptable error margins. Nevertheless, in an effort to reduce error, five special reviews were initiated in 1999-2000 to look at specific areas of risk to the CPP program. The reviews identified approximately \$1.8 million in potential savings to the CPP.

In 1999-2000, HRDC Collection Services recovered \$7.4 million in reimbursement for benefit overpayments, and a further \$16.8 million from ongoing benefits. The total returned to the CPP was \$24.2 million.

IMPROVED COMMUNICATIONS

Information on the CPP is available in a wide variety of formats — in print, on the Internet, in person on the phone or in local offices, and at electronic kiosks in government offices and public buildings. In 1999-2000, a renewed emphasis was placed on community outreach and communications efforts to help Canadians better understand public pensions and the retirement income system, and to encourage them to actively plan and prepare for their own retirement. More personalized contact with clients was given a high priority and led to two significant initiatives:

- Since February 1, 1999, spouses are being informed directly about the provision in the CPP that allows couples to split their accrued pension credits upon the dissolution of their marriage. An information sheet is now included in provincial court mailings of divorce judgment documents. As a result, more than 7,500 applications for credit splitting were approved in 1999-2000.
- More than 2.7 million personalized statements were mailed to CPP contributors between the ages of 18 and 29 in 1999-2000. This was the first time many of this group had received a Statement of Contributions; the information

sheet that accompanied the Statement thus introduced them to the Canada Pension Plan and other features of Canada's retirement income system. Starting in 2000-01, personalized Statements of Contributions will be sent to all CPP contributors annually.

To help working Canadians who become disabled understand the Plan and their rights, a number of communications initiatives were undertaken:

- A comprehensive guide to CPP benefits was developed to help partners, such as insurance companies, explain the Plan to their clients.
- A new booklet was published describing the appeals process for Members of Parliament.
- A new plain-language CPP appeals fact sheet was prepared.
- Information packages were provided to members of Parliament and other spokespersons to help them respond to common questions about the benefits.

Better communication with clients and their physicians also helped staff make more informed decisions and helped applicants better understand the decisions made. As a result, more than 90 percent of the applications for disability benefits submitted in 1999-2000 were finalized during the initial phases and the number of requests for reconsiderations declined from 19,200 in 1998-99 to 15,354 in 1999-2000.

Staff also worked closely with the Office of the Commissioner of Review Tribunals (OCRT) and the Pension Appeals Board (PAB) to improve coordination between their offices and to update management practices at the appeals level. As a result, the three organizations have all improved and augmented client communications. A major improvement came with the appointment of a significant number of additional members to the OCRT and the PAB, which allowed appeals to be processed more quickly.

29100

AGREEMENTS

HRDC participates in a number of reimbursement and information-sharing agreements that provide a bridge of financial security for Canadians during the transition to disability benefits. In 1999-2000, there were 12 such agreements in place with provincial governments and five with provincial workers' compensation boards, as well as 34 reimbursement agreements with private insurers.

To protect the pensions of Canadians working in other countries and new Canadians, Canada has pension agreements in place with 38 countries. Other agreements have been signed, but are not yet in force with Morocco, Slovenia, Turkey and Uruguay, and agreements are under negotiation with the Czech Republic, Hungary, Israel, Poland and Slovakia.



PUTTING THE CANADA PENSION PLAN

Canada's income security system is one of the best in the world. It is part of the reason Canada has ranked number one on the United Nations' Human Development Index for the last six years. The retirement income system provides a basic income for retired people and for workers and their families in the event of disability or death, and is a safety net that most of us take for granted. But it wasn't always there.

In the early years of our country, taking care of older citizens and those with disabilities was primarily the responsibility of individual families. State relief programs and private charities existed, but the level of assistance was meager and applicants had to submit to means tests.

And there were constitutional and financial barriers to government intervention.

By the end of the First World War, however, the world had changed, and it was getting harder for families to take care of their own. People were more mobile and were living longer — at a time when mechanization was eliminating jobs. Then the introduction of "temporary" income taxes in 1917 allowed the federal government to develop national social programs, culminating in 1927 with Canada's first Old Age Pension, which provided benefits to those in need — but, again, only for those who passed a means test.

The Great Depression and World War II caused people to define what they wanted from their government: a more equitable society, with an expanded system of social security. This led to the introduction of Unemployment Insurance and Family Allowances and, eventually, a universal Old Age Security program.

But retirement for most people still meant a drastically reduced standard of living. The need for a public pension became apparent — one that could be carried from job to job and from province to province. And families still needed protection against the death or incapacitation of their breadwinners.

The answer was the Canada Pension Plan. Established by an act of Parliament in 1965 after a constitutional amendment and implemented in 1966, the CPP is a joint federal/provincial pension and disability plan — based on earnings — that operates throughout Canada. All the provinces except Quebec opted to join the national plan. Quebec chose instead to administer its own complementary plan — the Quebec Pension Plan (QPP). Benefits from either plan are based on pension credits accumulated under both, as if only one plan existed, and the two plans are therefore almost entirely parallel.

The CPP is compulsory (as is the QPP), and most Canadian workers contribute throughout their working lives. It provides retirement pensions — as well as children's, survivor, disability and death benefits — and is meant to complement, not replace, personal savings and employer pension plans. To help protect the pensions of new Canadians and emigrants, Canada has also entered into social security agreements with other nations.

By the 1990s, however, the sustainability of Canada's public pension system had become a concern as the numbers of Canadians nearing retirement age continued to increase. It became increasingly obvious that the retirement of the large "baby boom" generation would cause strain on the public pension system.

And so, in 1998, after extensive public consultation, the federal and provincial governments took a balanced approach to CPP reform so that the Plan could meet the demands of the coming years. These changes involved increasing CPP

The strategy is proving successful; the latest actuarial report on the CPP confirms that the scheduled increase in the contribution rate is expected to be sufficient to sustain the Plan in the face of an aging population.

WHO BENEFITS FROM THE CANADA PENSION PLAN?

Everyone who contributes to the Plan and meets the eligibility criteria (see Appendix C for details) benefits from its programs — this covers almost everyone who has been either employed or self-employed in Canada between the ages of 18 and 70. During fiscal 1999-2000, more than 3.5 million Canadians received approximately \$18.8 billion in benefits.

These benefits took many forms. Some were retirement pensions for older Canadians. Others were in the form of assistance to people with disabilities that prevented them from working — and to their children. Still others helped the survivors of pensioners who had died — spouses, common-law partners and children. And services under the CPP vocational rehabilitation program made it possible for some Canadians with a disability to go back to earning a regular salary.

There are eligibility requirements for each type of CPP benefit. The amounts payable are calculated based on how much and for how long a contributor has paid into the CPP. But benefits are not paid automatically — each contributor must apply and provide proof of eligibility. Once eligibility is determined, CPP benefits are paid even if the beneficiary also receives income from other sources. Benefits are adjusted in January of each year to reflect increases in the average cost of living, as measured by the Consumer Price Index.



FEDERAL-PROVINCIAL REVIEW

As joint stewards of the CPP, federal and provincial Ministers of Finance are required to review the Plan's financial state every three years and make recommendations as to whether benefits and/or contribution rates should be changed. (Prior to 1997, their review took place every five years.) Changes to the legislation governing the general level of benefits, the rate of contributions or the investment policy can be made only by the Ministers through an act of Parliament. All such changes require the agreement of at least two thirds of the provinces with two thirds of the population, and come into force only after two years' notice, unless all the provinces waive this requirement. Quebec participates in this decision-making formula even though it opted out of the CPP and administers its own plan. This is because the OPP must be implicated in changes to the CPP if the plans are to remain parallel. To keep up to date with the needs of society, the QPP and CPP legislation have been amended several times.

The Ministers of Finance met in December 1999 to carry out the first triennial review after the amendments to the legislation implemented in 1998. Because the actuarial report prepared for the review and a panel of independent actuaries both confirmed that the Plan, as it is currently managed, is expected to be sustainable even with Canada's aging population, the Ministers did not amend the legislated schedule of contribution rates.

The Ministers agreed to make changes on other fronts. Specifically, they agreed to:

- allow the CPP Investment Board to actively invest up to 50 percent of the assets it allocates to domestic equities, as opposed to passively investing the monies in market indices:
- provide the participating provinces with the option of pre-paying some or all of their borrowings from the CPP at market prices, at no cost to the Plan;
- strengthen the governance of the CPP Investment Board by balancing continuity and renewal in membership on the Board;
 and
- continue to examine improvements to creditsplitting options (the division of CPP credits between partners upon the breakdown of marital or common-law relationships).

N Plan N Plan

FINANCING THE CANADA PENSION PLAN

FINANCIAL SUSTAINABILITY

The Chief Actuary is required under the legislation to produce an actuarial report on the CPP every three years. The federal/provincial Finance Ministers use this report for their triennial review.

The most recent actuarial report, the Seventeenth Actuarial Report on the CPP, was tabled in Parliament in December 1998. The report confirmed that the 9.9 percent combined employer-employee contribution rate, which will be reached in 2003, is expected to be sufficient to sustain the Plan as larger numbers of Canadians reach retirement age.

The projections of the actuarial report make allowance for future demographic changes, indicating that the proportion of the population over 65 will double in the period between 1997 and 2050. They also allow for continuous improvement in life expectancy and reflect the changes legislated in 1997, including the introduction of "steady-state financing". The Report is available at http://www.osfi-bsif.gc.ca/eng/office/actuarialreports/index.asp. The report of an independent panel of actuaries is also available at this web site.

The Fair Approach to Funding

When it was introduced in 1966, the CPP was designed as a pay-as-you-go plan, with a small reserve. This meant that the benefits paid to one generation were to be paid largely from contributions of younger generations. This approach made sense under the economic, financial and demographic circumstances of the time. The period was characterized by a rapid growth in wages and labour force participation and low rates of return on investments.

Plan administrators were able to keep contributions at a reasonable level while beginning to pay full benefits as early as the mid-1970s. This was important — many of the

seniors who received the benefits at that time had been unable to accumulate sufficient retirement savings because of the Great Depression and two world wars.

Demographic and economic developments and changes to benefits in the 30 years that followed resulted in significantly higher costs. When the federal/provincial Finance Ministers

Funding options for pension plans

There are a number of ways to fund pension plans, ranging from pay-as-you-go to full funding. The CPP is a hybrid of the two extremes described below.

The pay-as-you-go approach

Under a pure pay-as-you-go approach, the benefits paid to each generation of current retirees are financed from the contributions of the following generation of contributors. In other words, benefits being paid out at any time are financed entirely from contributions (and/or tax revenues) being made to the plan during the same period by workers and employers (and/or taxpayers). This method is commonly used to finance public pension plans. In a pure pay-as-you-go plan, there is no accumulation of funds.

The full-funding approach

Under a fully funded system, each generation pays for its own benefits. This approach requires contribution rates to be set at levels high enough to generate a reserve fund that will be able to meet all future benefit obligations for that group of retirees, with the contributions invested in financial markets. This method works best when real wage growth is low and rates of return on investments are high. It is typically used for private/employer-sponsored pension plans to safeguard employees in case of business failure.

began their statutory review of the finances of the CPP in 1996, contribution rates, already legislated to rise to 10.1 percent by 2016, were expected to have to rise again — to 14.2 percent by 2030 — to continue to finance the program on a pay-as-you-go basis.

This would have meant imposing a high financial burden on Canadians in the workforce during those years.

Steady-State Financing

To reduce the burden on future generations, the federal and provincial governments introduced "steady-state" financing in 1998.

Under steady-state financing, the contribution rate increases incrementally (from 5.6 percent in 1996) to 9.9 percent in 2003 and is expected to remain at that rate thereafter. The 9.9 percent long-term contribution rate is the lowest level possible that can be expected to sustain the Plan indefinitely without further increases. [The contribution rate in 2000 was 7.8 percent.]

This approach will generate a level of contributions between 2001 and 2020 that exceeds the benefits paid out every year during that period. Funds not immediately required to pay benefits will be transferred to the arm's length CPP Investment Board (created through a new statute that came into effect in 1998) for investment in financial markets. Over time, this will create a large enough reserve to help pay the growing costs that are expected as more and more baby boomers retire.

After 2020, as the last of the baby-boomers retire, when the benefits paid begin to exceed contributions, revenues from these investments will provide the funds necessary to make up the difference. However, contributions generated by the steady-state rate of 9.9 percent will remain the main source of funding.

It must be noted that the CPP was never intended to be operated as a fully funded plan. Under full funding, benefits could not have been phased in over a 10-year period to provide full CPP pensions to those who retired in the 1970s, 1980s and 1990s. Using this method, full benefits would have been available only when the Plan matured — in other words, when those aged 18 or under in 1966 (when the CPP was created) reached the age of retirement as of 2013. This approach would have also made it more difficult to design a plan with the desirable features the CPP offers (such as the dropout provision for child-rearing, for example).

The steady-state financing approach adopted in 1998 is a cross between full funding and pay-as-you-go. Moving to a full-funding approach would have created intergenerational unfairness because, during the transition, one or more generations of contributors would have had to pay higher contributions than any other generation — they would have had to pay both for the benefits of current retirees and for the development of a reserve to cover their own pensions. A pure pay-as-you-go approach would also have been unfair as it would have meant a sharp increase in the contribution rate in the next three decades.

A partially funded CPP is not only a good balance between the two extreme approaches, but it also complements the other components of the Canadian retirement income system:

- the Old Age Security program, funded on a pay-as-you-go basis by general government revenues, and
- tax-assisted, fully funded employer-sponsored pension plans, Registered Retirement Savings Plans and other private savings.



As a whole, because it has a diversified funding approach, the Canadian retirement income system is less vulnerable to changes in economic and demographic conditions than are systems in countries that use a single funding approach.

FINANCIAL COMPONENTS

A separate account has been established for the CPP in the Accounts of Canada to record the financial elements of the Plan: contributions, interest, pensions, other benefits and administrative expenditures. The account also records the amounts transferred to or received from both the CPP Investment Fund and the CPP Investment Board. Spending authority is limited to the balance in the account.

In 1999-2000 — as part of a Governmentwide transition - the CPP adopted the accrual basis of accounting for revenues and expenses. This will allow administrators to obtain a more detailed financial picture and to match revenue and expenditures more accurately to the year in which they occur. In anticipation of the transition, a complete set of financial statements. including a statement of net assets and changes in net assets was prepared (see Appendix A).

The balance represents contributions and investment income accumulated since the Plan's inception in 1966, minus benefits and expenditures from the same period.

As of March 31, 2000, the balance held in the CPP was approximately \$41.3 billion (equal to 2.2 years' benefits). These funds provide a reserve to shore up the plan in the event of lower-than-expected contributions or higher-than-expected benefit payments. With the shift to the steady-state financing approach, the reserve will increase from the equivalent of two to about five years' benefits over the next two decades. With a five-year reserve, the Plan will be funded to about 20 percent.

CPP ACCOUNT

The CPP Account consists of an operating balance and a number of short-term investments. The operating balance is maintained at a level designed to cover three months' worth of benefit payments and administrative charges. These funds are not invested in provincial securities or by the CPP Investment Board; rather, they earn interest based on the average daily balance of the reserve. The interest paid on these funds is calculated by averaging the unweighted average yields at tender on three-month Treasury Bills during the month the interest is paid, then subtracting one-eighth of one percent.

During 1999-2000, the operating balance earned an average interest rate of 4.56 percent, or \$266 million. Short-term investments had an average interest rate of 4.71 percent and earned \$49 million.

CPP INVESTMENT FUND

Before the 1998 changes, CPP funds not immediately needed to pay benefits were invested only in long-term bonds of the provincial and territorial governments, provincial Crown agencies, and the Government of Canada. The CPP Investment Fund will retain investments in these securities until they have matured and are redeemed. The balance in the Investment Fund as at March 31, 2000, was \$30.3 billion, down slightly from \$30.8 billion in March 1999. All securities held were invested for 20-year terms.

Interest

In 1999-2000, the Investment Fund earned about \$3.5 billion in interest, which was deposited in the CPP. This compares with \$3.6 billion earned in the previous 12 months. (Appendix A summarizes the status of the Investment Fund as of March 31, 2000.)

Maturing securities are redeemed as they come due, with the principal and any outstanding interest reimbursed by the provinces and territories. In 1999-2000, \$1.9 billion worth of bonds matured and were redeemed; of those, \$1.3 billion worth were renewed for additional 20-year terms.

Rates of Return

The Investment Fund continues to benefit from the high rates of return for securities that were bought in the early 1980s, when interest rates were relatively high. Since these securities are long-term 20-year government bonds, bearing a weighted average annual nominal return of 11.27 percent (or 8.27 percent after taking inflation into account), the Fund's average nominal rate of return will remain above 10 percent for the next several years. For this reason, the short-term rate of return, based on these investments, will exceed the Fund's expected long-term rate of return of seven percent, or four percent after inflation. This long-term rate of return is based on investments being made today that have lower returns. However, as equities historically have provided higher returns than bonds, even if more volatile, in the long term the new strategy is expected to produce better returns than the previous one, which permitted investments in government bonds only and therefore prevented diversification of investments.

Transition to the New Investment Policy

Historically, CPP funds were loaned to the federal, provincial and territorial governments for 20-year terms. New funds that are not immediately needed to pay benefits and Investment Fund securities that are redeemed are now transferred to the CPP Investment Board to be invested in the capital markets. As a transitional measure, all provinces and territories can roll

over their CPP borrowings at maturity for one more 20-year term if they wish, at the same rate of interest as they pay on other market borrowings.

During the federal/provincial review completed in December 1999, a decision was made to amend the CPP legislation to give the provinces and territories the option of prepaying some or all of their CPP borrowings at market prices, at no cost to the Plan. Once implemented, this measure can assist provinces that are paying down their debts.

CPP INVESTMENT BOARD

The Canada Pension Plan Investment Board (CPPIB) was established in 1998 to invest and manage funds not immediately required to pay CPP contributors and beneficiaries. The Board operates "at arm's length" from government. Its mandate is to invest funds in such a way as to maximize returns without incurring undue risk and to safeguard the financial position of the Canada Pension Plan and its ability to meet its obligations.

A 12-member board of directors, chaired by Gail Cook-Bennett, manages the Investment Board. (The first directors were appointed in October 1998 on the recommendation of the Minister of Finance, following consultations with the provincial ministers.) Its small staff is responsible for the investment of CPP funds, the measurement of the Board's investment performance, and the management of its relationships with third parties. The CPPIB's first permanent President and Chief Executive Officer, John A. MacNaughton, took office on September 7, 1999.

During fiscal year 1999-2000, the Investment Board:

 developed a strategy and business plan (set out in its Statement of Mandate in the second annual report of the CPPIB); N Plan N 99/00

- adopted the model of a "virtual corporation"
 (a small team of investment professionals at the Board working with external experts to manage its assets and increase their long-term value) to fulfil its legislated objective of investing CPP funds in the best interests of plan members;
- introduced an evaluation process to examine the performance of the board of directors and its committees each year;
- implemented an evaluation process to assess the performance of the President and Chief Executive Officer;
- issued four quarterly financial reports and, in June 2000, published its annual report for the reporting period;
- activated a web site in June 1999
 (http://www.cppib.ca) to provide public access to current information on Board policies and financial results; and
- invested \$1.9 billion that was transferred from the CPP during the course of the year.

A Formal Investment Policy

The Investment Board, as governed by its legislation - the Canada Pension Plan Investment Board Act and Regulations - is responsible for developing its own investment policy, while operating under the same general investment rules that apply to most other federal and provincial pension plans. In the future, the Board may invest in bonds to achieve a diversified asset mix as the equities under its management grow and the non-marketable securities in the Investment Fund mature. The Board is required to ensure that a portion of the funds it chooses to allocate to bonds are provincial/territorial government bonds. As of January 2001, this percentage will be consistent with the proportion of bond holdings allocated to provincial and municipal bonds by Canadian pension funds generally. In addition, the Board

must adhere to the foreign property limit on its foreign investments. The ceiling on permitted foreign investments was 20 percent during the 1999-2000 period. It will increase to 30 percent effective January 1, 2001.

During its start-up phase, the Board was required by law to substantially replicate the composition of one or more broad market indexes in its allocations to domestic equity investments. At the CPP Triennial Review in December 1999, however, federal and provincial Finance Ministers agreed to relax this passive investment requirement and give the Board full discretion for the investment of up to half the funds it allocates to domestic equities. (The Regulation was amended in August 2000 to implement this decision.)

Under the legislation, the Board is required to develop a formal investment policy and to review it at least annually. The key elements of its policy during the period ending March 31, 2000, were as follows:

- To diversify the combined asset base of the Canada Pension Plan (the Investment Fund and the Board's investment portfolio), all funds were invested in equities.
- Eighty percent of the Board's assets were invested domestically and 20 percent internationally in index funds.
- The Canadian stock index fund mirrored the Toronto Stock Exchange 300 Composite Index.
- Assets were invested abroad in two foreign stock index funds — the United States Standard and Poor's 500 Index and the Morgan Stanley Capital International EAFE (Europe, Australia and New Zealand, and Far East) Index.

Investment Activities

The Investment Board received \$1.9 billion from the Canada Pension Plan for the period of April 1, 1999, to March 31, 2000, compared with \$11.9 million in the preceding fiscal year. The market value of its investments as at March 31, 2000, was about \$2.4 billion, which included approximately \$460 million of investment income (after expenses).

The CPPIB earned a 40.1 percent rate of return on its assets during fiscal 1999-2000, with portfolio returns closely matching the rates of return realized on Canadian and foreign-market-based benchmark indexes during the year. The CPP funds managed by the Investment Board are expected to grow rapidly as revenues from contributions increase and bonds in the Investment Fund mature. The government projects that the Board will have assets of \$100 billion under its management within the decade.

The Investment Board plans to complete the recruitment of five senior executives during 2000; the executive team will be responsible for all aspects of the Board's investment and business performance. With the increase to the foreign property limit and the relaxation of the passive investment restriction, the Board will have the scope and flexibility to pursue a diversified investment strategy should it choose to do so.

The CPP Investment Board is accountable to Canada Pension Plan contributors and beneficiaries. In January 2001, the Board will hold public meetings across Canada to give Canadians the opportunity to ask questions about its policies and performance.



Benefits AND Expenditures

The number of CPP benefits has increased steadily over the past decade, as have expenditures required to pay for the increased claims. Table 1 shows the yearly increases since 1996-97.

RETIREMENT BENEFITS — FACTS AND FIGURES

Retirement pensions represent 64.6 percent of the total number of CPP benefits paid and 68.6 percent of the total benefit dollars paid out by the CPP in 1999-2000.

The amount of each contributor's pension depends on how much and how long he/she has contributed and at what age he/she begins to draw the benefits. Table 2 shows the maximum monthly amount that could be received in CPP benefits during the years ending March 31, 1999, and March 31, 2000, by people who began receiving their pension at the age of 65. The average amount actually paid in benefits in the month of March in those two years is provided in the final columns, broken down to show the average amount drawn by those whose benefits started at 65 and the average amount drawn by all pensioners during that month (including those who began drawing their pension at a younger age).

Table 3 shows the total number and amount of benefits paid, by fiscal year, and indicates what proportion of these were new benefits.

TABLE 1 - BENEFITS AND EXPENDITURES BY FISCAL YEAR

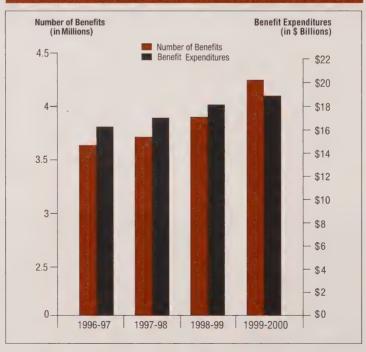
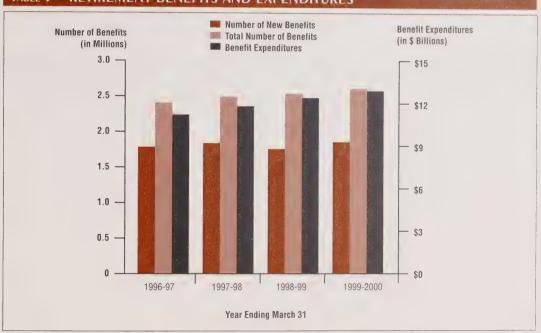


TABLE 2 - MAXIMUM AND AVERAGE MONTHLY RETIREMENT PENSION AMOUNTS

Benefits	Maximum amount payable (\$)		Average amount paid (\$)	
beginning at	1999	2000	March 1999	March 2000
Age 65	751.67	762.92	418.74	424.85
All ages			412.38	417.68

TABLE 3 - RETIREMENT BENEFITS AND EXPENDITURES



DISABILITY BENEFITS — FACTS AND FIGURES

The maximum monthly disability benefit amounts payable for 1999 and 2000 are presented in Table 4, below, with the actual average amount paid in March of each year. The amounts are differentiated by type of benefit, since the amount paid in children's benefits is a flat rate.

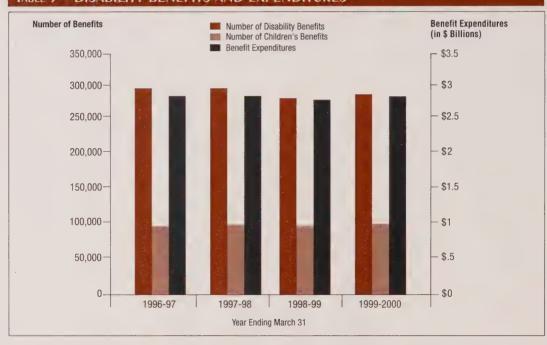
Disability benefits, paid to eligible contributors and their children, represent 9.5 percent of the total number of CPP benefits paid and 14.9 percent of the total benefit dollars paid out by the CPP in 1999-2000. Table 5 illustrates the number of disability benefits paid each year from 1996-97 to 1999-2000, broken down by type of benefit, and shows actual expenditures for those years.



TABLE 4 - MAXIMUM AND AVERAGE MONTHLY DISABILITY BENEFIT AMOUNTS

Type of benefit	Maximum amount payable (\$)		Average am	ount paid (\$)
	1999	2000	March 1999	March 2000
Disability	903.55	917.43	676.91	685.39
Children's (flat-rate)	171.33	174.07	171.33	174.07

TABLE 5 - DISABILITY BENEFITS AND EXPENDITURES



SURVIVOR BENEFITS — FACTS AND FIGURES

Survivor benefits, paid to the surviving spouse of the contributor and his/her children, represent 23.2 percent of the total number of CPP benefits paid and 15.3 percent of the total benefit dollars paid out by the CPP in 1999-2000.

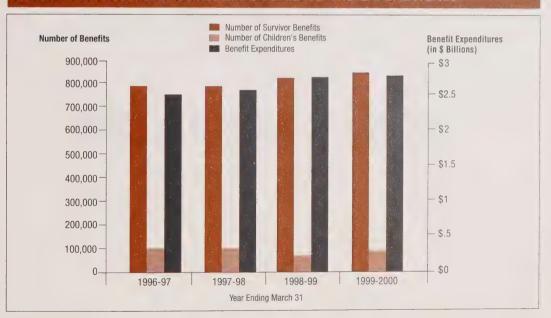
The maximum monthly survivor benefit amounts payable for 1999 and 2000 are presented in Table 6, below, with the actual average amount paid in March of each year. The amounts are differentiated by type of benefit.

Table 7 illustrates the number of survivor benefits paid each year from 1996-97 to 1999-2000, broken down by type of benefit, and shows actual expenditures for those years.

TABLE 6 - MAXIMUM AND AVERAGE MONTHLY SURVIVOR BENEFIT AMOUNTS

Type of survivor	Maximum amou	nt payable (\$)	Average amount paid (\$)		
benefit	1999	2000	March 1999	March 2000	
Spouse over 65	414.46	420.80	307.38	311.68	
Spouse under 65	451.00	457.75	239.84	247.51	
Children's (flat-rate)	171.33	174.07	171.33	174.07	
Survivor/Disability	903.55	917.43	833.84	839.64	
Survivor/Retirement	751.67	762.92	557.06	569.40	
Death	2,500.00	2,500.00	2,162.48	2,158.34	

TABLE 7 - SURVIVOR AND CHILDREN'S BENEFITS AND EXPENDITURES



DEATH BENEFIT — FACTS AND FIGURES

Death benefits represent 2.6 percent of the total number of CPP benefits paid and 1.2 percent of the total benefit dollars paid out by the CPP in 1999-2000.

Table 8 illustrates the number of death benefits paid each year from 1996-97 to 1999-2000 and shows actual expenditures for those years.





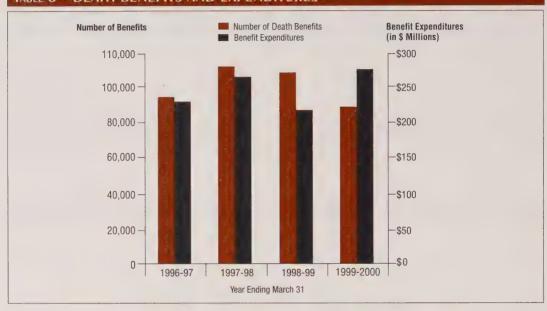


TABLE 9 - MINIMUM AND MAXIMUM PENSIONABLE **EARNING AMOUNTS**

	Minimum (\$)	Maximum (\$)
1998	3,500	36,900
1999	3,500	37,400
2000	3,500	37,600

CONTRIBUTIONS

The CPP is financed through mandatory contributions from employees, employers and self-employed persons, as well as from investment income derived from CPP investments. Approximately 12.5 million Canadian workers over the age of 18 currently contribute to the CPP.

Contributions are paid on the portion of a person's earnings that falls between specified minimum and maximum amounts, as identified in Table 9. The maximum amount is linked to the average Canadian industrial wage and is adjusted annually. The minimum remains constant at \$3,500.

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Thus, if a person earns \$3,500 or less in a calendar year, neither that person nor his/her employer will make contributions to the CPP—and no contribution is required on earnings above the maximum amount. Similarly, no contributions are required once a contributor reaches the age of 70 or if he/she is receiving a CPP retirement pension or a CPP disability benefit.

The contribution rates for the year 2000 are 3.9 percent for employees and 3.9 percent for employers. Persons who are self-employed pay both portions, for a total of 7.8 percent. The combined rate for 2001 will be 8.6 percent.

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CPP DISAbility BENEfits

The Canada Pension Plan includes the largest long-term disability income program in Canada. In 1999-2000, the CPP paid \$2.6 billion in benefits to 287,000 contributors with disabilities and \$245 million in benefits to 97,000 children of such contributors. More than 60,000 new applications for disability benefits were received in 1999-2000.

The primary role of the CPP disability benefit is to replace a portion of the earnings of contributors who cannot work because of a disability that is both severe and prolonged. The CPP is the only public plan in Canada that provides coverage regardless of the cause of disability. A second important role is to help beneficiaries to return to work if and when they are able to do so.

There is a delicate balance to be achieved in managing a program of this size and complexity. It is important that clients be treated fairly and with sensitivity. The CPP recognizes this and continues to make a determined effort to deliver a high-quality program that respectfully meets the changing needs of applicants and beneficiaries, while ensuring that the legislation is respected and that funds are managed responsibly.

In 1999-2000, CPP administrators adopted a plan to establish a client-centred service delivery approach. Once implemented, this approach will provide support throughout an individual's claim period. This supports the federal government's stated objective to enable Canadians to participate fully in the workplace and in the community.

The following priorities were identified as necessary to the achievement of excellence in the delivery of CPP disability benefits:

- to reduce waiting times for decisions at initial levels of the application process;
- to improve written communications (for example, by replacing bureaucratic or legalistic language with plain language);
- to expand vocational rehabilitation efforts to help clients become more independent;

- to develop a quality assurance program to ensure consistent and accurate decisionmaking; and
- to develop a client-centred service delivery model to better adapt services to client needs.

In 1999-2000, HRDC continued to move some functions to the regions, bringing decision-making and vocational rehabilitation services closer to beneficiaries. The department also reduced processing times at all levels of decision-making and tested new approaches designed to improve personal contact. Efforts were made to improve communications with clients and their physicians, for example, and to expand the CPP vocational rehabilitation program.

APPLICATION PROCESSING AND DECISION-MAKING

HRDC is responsible for the initial decision, or ruling, on a disability application and, when applicable, for the reconsideration of that decision. Staff understand the impact of delays on the lives of those who seek assistance, and make every effort to get a decision for clients as quickly as possible. At the same time, they try to avoid making decisions prematurely if there is a chance that more information might be available that could lead to a more informed decision on the case.

Currently, more than 90 percent of all applications for CPP disability benefits are resolved during the initial adjudication and reconsideration stages, and the department has reduced processing times for both types of actions. As of March 2000, the national average speed of service for initial applications was 61 days (the service standard is 62 days), and for reconsiderations was 66 days (service standard: 71 days). (Internal performance is measured on a statistical sampling of recent files.)

However, the length of time it takes to reach a final decision on an individual case depends on the complexity of the applicant's medical condition and the need for additional information. It is the responsibility of applicants and their physicians to provide this information, and processing times can vary significantly as a result.

Dispute Resolution Pilot Project

In an effort to improve the management of the CPP disability caseload, reduce costs, and increase client satisfaction and staff effectiveness, new dispute resolution techniques were tried last year in three regional sites: St. John's, Newfoundland; Chatham, Ontario; and Winnipeg, Manitoba.

Financial support for this project came from the Department of Justice Dispute Resolution Fund, which was established to encourage departments to try this approach. The goal is to reduce litigation by developing and using mechanisms that prevent or resolve disputes in a way that is acceptable to all parties. Implementing these mechanisms requires that departments train staff in dispute resolution techniques and incorporate the appropriate processes into their legislation. HRDC tested these techniques at both the initial application and the reconsideration phases of the disability application process to identify how best to prevent or resolve disputes prior to entering the formal appeals process.

The regions varied their approaches slightly to allow for a fuller assessment of the effectiveness of the various mechanisms. Typically, departmental staff would contact the client before opening the file to explain the process and provide all the necessary information. All clients were also contacted by telephone at the time the decision was taken on their case to make sure they understood the decision and its implications. If the application had been denied,

the client was given information on the appeal process or on alternative income supports. If the application was granted, the client was given information on vocational rehabilitation and reassessment programs (if appropriate).

The pilot project was very successful, and clients expressed satisfaction with the increased level of communication achieved with these techniques. The "best practices" derived from this pilot project will be phased in over the next two years.

Improving the Appeals Process

As part of an initiative started in 1998-99 to review the entire appeals process, additional efforts were made to increase the efficiency of the system. Staff worked closely with the Office of the Commissioner of Review Tribunals and the Pension Appeals Board to improve coordination between their offices and to update management practices.

As a result, HRDC, the Office of the Commissioner of Review Tribunals and the Pension Appeals Board have all improved and augmented client communications to better inform clients about the appeals process. A major improvement came with the appointment of a significant number of additional members to the Office of the Commissioner of Review Tribunals and the Pension Appeals Board, which allowed appeals to be processed more quickly.

COMMUNICATING MORE CLEARLY AND MORE OFTEN

Improving communication was made a priority in 1999-2000. To help Canadians understand the Plan, a number of initiatives were undertaken. For example:

 A comprehensive guide to CPP benefits was produced to help partners, such as insurance companies, explain the Plan to their clients.

- A new booklet describing the appeals process for Members of Parliament was published.
- A new CPP appeals fact sheet was produced to make the process easy to understand.
- Information packages were developed to help Members of Parliament and other spokespersons respond to common questions about the benefits.

In December 1999, HRDC surveyed some 800 recipients of CPP disability benefits to determine their level of knowledge about the program and to find out how communication could be improved. Clients said they would like to receive information about CPP benefits on a more regular basis, preferably by mail. As a result, concrete steps are being taken to improve communication in these areas.

Beneficiaries will receive more frequent communications on the plan to improve their understanding of both their rights and their responsibilities. Work has also started on a "literacy and plain language" strategy, targeting the disability application kit as a top priority for revision. Letters to clients are also being re-formulated.

The department also conducted a random survey of 200 general practitioners who had treated a CPP disability client within the past two years. Results showed that while understanding of CPP regulations and benefits continues to improve, it has not reached desirable levels among all physicians. A guide will be developed

in 2000-01 to provide information of specific use to physicians in treating their patients.

EXPANDING VOCATIONAL REHABILITATION

Because of the nature and severity of their medical conditions, most CPP disability beneficiaries are unable to undertake substantially gainful employment. However, a small percentage of beneficiaries have the potential to return to work when provided with vocational rehabilitation or other support. It is widely recognized that timely and personalized vocational rehabilitation services play a major role in improving quality of life by re-integrating persons with disabilities into mainstream activities.

HRDC has introduced vocational rehabilitation assistance, using a case-management approach and working with each beneficiary to develop a customized return-to-work plan. Participation is voluntary, and individual plans can include services such as vocational assessment and testing, skills upgrading and job search assistance. Local private-sector vocational rehabilitation specialists deliver these specialized services to the beneficiary in his or her community.

In 1999-2000, the number of people taking advantage of the support services grew from 281 to 476 (see Table 10). This growth is expected to continue as more clients become aware of the services available.

TABLE 10 - VOCATIONAL REHABILITATION

Fiscal year	Number of recipients	Percentage of recipients who regained capacity to work	Savings estimated over three years (in \$ millions)
1998-1999	281	44%	\$1.7
1999-2000	476	40%	\$2.4

The success of vocational rehabilitation has also encouraged the department to look for other ways to assist and encourage disability benefit recipients who may be ready to return to work. A March 2000 survey of recent vocational rehabilitation clients confirmed that the service was appreciated by those who participated.

IMPROVING SERVICE TO CLIENTS

In his 1996 report, the Auditor General observed that, even though there were numerous mechanisms in place to monitor the quality of decisions, the CPP disability benefits administration did not have a formal and systematic quality monitoring process. In response, HRDC improved its quality assurance process to improve the accuracy and speed of decision-making for disability benefits cases throughout Canada.

HRDC assesses four administrative functions relating to this process: initial decisions, reconsiderations, reassessments and appeals. By identifying the nature and extent of inconsistencies in the decision-making process, the department helped to improve conformity and consistency with CPP legislation and policies.

The improvements were noted: in 1999, the Auditor General pointed out that "the department has expended considerable effort to improve service to clients and manage the CPP Disability program more effectively. It took action in each area discussed in our 1996 chapter. The department completed implementation of certain recommendations and revised the applicable administrative policies and practices."

Responsibilities of Recipients of Disability Benefits

CPP disability benefits are not a permanent entitlement — if recipients regain the capacity to work, they are no longer eligible for benefits. While some medical conditions are progressive and terminal, others may improve over time, or the person may learn to work with the disability.

For these reasons, beneficiaries are responsible for informing HRDC of their changed status — and a client's file may be periodically reassessed to ensure that the eligibility criteria continue to be met. Where indications of potential improvements in a beneficiary's medical condition exist, a date is set for re-evaluation of his or her capacity to work.

Reassessments are also initiated if information is received that indicates the beneficiary has already returned to work or has regained the capacity to work. Such information may be received directly from the client, from third parties, or from Employment Insurance or the Canada Customs and Revenue Agency (when earnings information is received).

Reassessment constitutes a vital component of HRDC's commitment to protect the integrity of the Canada Pension Plan on behalf of all contributors and beneficiaries and help to ensure that only those who are still eligible continue to receive benefits. Funds returned to the CPP as a result of reassessment of eligibility during 1999-2000 resulted in program savings of \$20 million. See Table 11.

Timed

TABLE 11 - REASSESSMENTS OF DISABILITY CASES

Year ending March 31	Number of decisions	Number of benefits cancelled	Percentage of benefits cancelled	Annual savings in benefit payouts	Overpayments identified
1997-1998	11,833	2,985	25.2%	\$27,601,848	\$23,368,933
1998-1999	10,744	2,687	25.0%	\$25,273,476	\$10,124,228
1999-2000	9,943*	2,083	20.9%	\$20,077,752	\$5,234,845

^{*} The number of reassessments completed in 1999-2000 was down in comparison to 1998-99, because reassessment staff had to be reassigned to assist with the processing of new applications in order to prevent backlogs.

To ensure the best possible administration of the disability benefits program and to protect against fraud and abuse, the department reviewed a random sample of benefit files selected from the 1998 payment year.

Thirty-eight of the 9,943 CPP disability benefit cases reviewed were referred to the RCMP for criminal investigation relating to suspected fraud. Their investigation resulted in the recovery of approximately \$537,000 in 1999-2000 from disability benefit fraud cases. Of the 1,149 third-party complaints investigated, 12 percent, or 134 cases, resulted in changes to the client's benefit entitlement assessment.

CLIENT-CENTRED SERVICE DELIVERY

In response to client feedback, HRDC is developing a more personalized approach to the way it provides services to applicants and to beneficiaries of disability benefits. The focus will be on earlier and more personal contact with people applying for benefits, more timely and continuous follow-up with those receiving benefits, and

more active support to beneficiaries preparing to return to work or making the transition to retirement benefits. The department will also provide "pathfinding" assistance to those who apply but are not eligible for disability benefits, putting them in touch with other programs and services in their area that may be able to assist.

A number of activities to improve service delivery have been identified and will be tested or fully implemented in 2000-2001. HRDC will:

- work with private long-term disability insurance providers toward joint screening of applicants and the improvement of referral mechanisms;
- improve links between the CPP and the Employment Insurance Branch to provide seamless service to clients;
- help older clients prepare for transition to retirement benefits; and
- improve access to comprehensive information related to returning to work.

MANAGING THE CANADA PENSION PLAN

ADMINISTRATIVE COSTS

The cost of administering the CPP is shared among several federal government organizations: Human Resources Development Canada (HRDC), Canada Customs and Revenue Agency (CCRA), Public Works and Government Services Canada (PWGSC), the Office of the Superintendent of Financial Institutions (OSFI), and the Department of Finance. These organizations receive funds to administer the CPP based on the costing principles approved by Treasury Board and included in the Memorandum of Understanding established with each department. To be acceptable, all administrative charges must have a causal relationship to the CPP and must be traceable.

In 1999-2000, it cost approximately \$315 million to administer the CPP, with HRDC accounting for the largest portion — \$242 million (see Table 12). CCRA required approximately \$58 million and PWGSC, \$14 million, for services, The OSFI and the

Department of Finance incurred costs of \$1.2 million and \$346,000 respectively. Since the administration costs of the CPPIB are drawn from CPPIB investment income, they are reported in that organization's annual report. This facilitates the arm's-length administration of the Board. In 1999-2000, the CPPIB reported \$1.3 million in operating expenses.

Comparison to Other Pension Plans

CPP administrative expenses represent 1.68 percent of the \$18.8 billion in benefits paid (1.65 percent of total expenditures). This ratio compares very favourably with that of other pension plans. Administrative costs for large pension plans in the private sector for example were, on average, equal to five percent of expenditures.

CPP administrative costs also compare favourably with those of RRSPs. Under the new investment policy, CPP investment costs are expected to be as low as those of other large pension plans that have annual investment costs

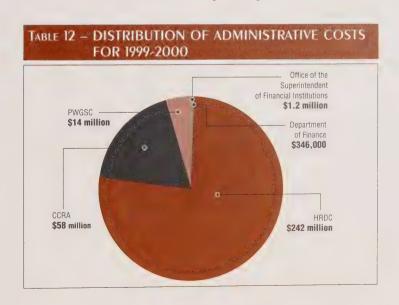


TABLE 13 - CPP ADMINISTRATIVE COSTS 1997-98 TO 1999-2000

	Expenditures (in \$ thousands)			
Department/Agency	1997-98	1998-99	1999-2000	
Human Resources Development Canada	203,436	205,929	241,328*	
Canada Customs and Revenue Agency	74,800	75,753	58,193	
Public Works and Government Services Canada	17,864	14,352	14,094	
Office of the Superintendent of Financial Institutions	1,100	1,022	1,181	
Finance Canada	500	530	346	
Total	297,700	303,586	315,142	

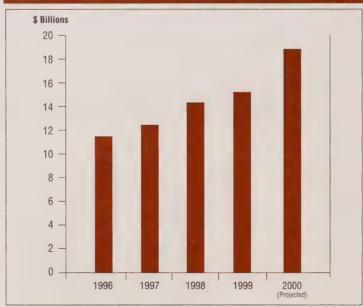
^{*}The increase in HRDC's administrative costs between 1998-99 and 1999-2000 was due to a number of factors: in particular, the requirement for extensive system upgrades. Moreover, the shift to the accrual system of accounting makes the difference in cost appear greater — since the accounts are prepared differently than they were during previous years, they cannot be compared directly.

of 0.1 percent of assets. This is much less than the 2 to 3.5 percent that is commonly charged for individual RRSPs. Table 13 presents the CPP's administrative expenditures for the last three years.

COLLECTING AND RECORDING CONTRIBUTIONS

All CPP contributions are remitted to the Canada Customs and Revenue Agency (CCRA). Approximately 94 percent of the total come from employers and employees and the remaining six percent from self-employed Canadians. Table 14 shows the amount collected annually by CCRA.

TABLE 14 - CPP CONTRIBUTIONS COLLECTED



Besides collecting contributions, CCRA also assesses and verifies earnings and contributions, advises employers and employees of their rights and responsibilities, conducts audits, and reconciles reports and T4s submitted. CCRA audits include both a review of the CPP deductions and remittances and a verification of income tax and employment insurance deduction requirements.

Although most employers remit the proper contribution amounts on behalf of their employees, some fail to comply, usually because of cash flow problems. To verify that contribution requirements are being met, CCRA applies a compliance and enforcement process that can vary from a computerized data match to an on-site audit.

Employers may request on-site assistance for clarification of payroll withholding requirements. Or employees may seek advice if they feel their employer is contravening a related tax law. Compliance by employers is generally good once CCRA explains how to properly deduct, remit and report employee contributions.

There are approximately 1.3 million existing employer accounts. During 1999-2000, CCRA conducted 53,427 audits, focusing on files with irregularities. Of these, 29,127 resulted in money being repaid to the CPP. Table 15 summarizes audit activity.

Rulings and Appeals

CCRA tax service offices and tax centres issue rulings on questions such as whether or not a worker is engaged in pensionable employment and whether specific earnings require CPP contributions. CCRA's goal is to complete each ruling within 30 days of receipt. In 1999-2000, CCRA made 20,009 rulings for CPP purposes.

Under the Canada Pension Plan, individuals have the right to appeal rulings and assessments. Approximately 12 percent of CPP rulings and assessments issued are the result of appeals and are administered by independent appeals staff in CCRA tax service offices. For issues that remain unresolved, recourse is provided through the judicial process, ranging from the Tax Court to the Supreme Court of Canada.

Overpayments and Adjustments

Overpayments and adjustments to contributions occur when an individual is employed in two or more positions during the year and is making contributions for each job. In these cases, CCRA issues a refund after year end once the employee's income tax return is filed, since contributions are paid only on earnings up to the yearly maximum amount regardless of the number of jobs held during the year.

TABLE 15 - AUDIT ACTIVITY AND RESULTS - EMPLOYER ACCOUNTS (Period Ending March 31)

	1998-99	1999–2000	2000-01 (projected)
Number of audits completed	50,683	53,427	57,222
Audits resulting in assessments for CPP	29,154 (58%)	29,127 (55%)	31,472 (55%)

For the year ending December 1999, an estimated \$267.6 million in CPP contribution overpayments was refunded. Adjustments were also made on CPP contributions by self-employed individuals. Table 16 presents the overpayments and adjustments refunded, by year.

Keeping Contribution Records and Ensuring Accuracy

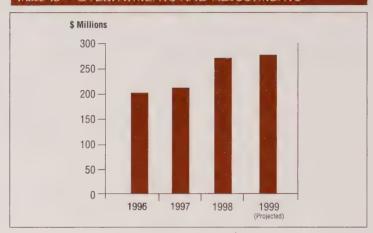
Between 1964 and the end of March 2000, some 35.4 million Social Insurance Numbers (SIN) were issued. Of these,

only 24.5 million had some form of earnings and/or contributions recorded. The others have no pensionable earnings — the cardholders may be unemployed or they may be young children whose parents have obtained a SIN for them in order to open an education savings plan, for example.

CCRA has the legislated authority to post CPP contributions on an individual's account through the T4 process. The accurate posting of contributions requires that both surname and SIN match. Discrepancies in these accounts each year are primarily due to employer or contributor errors in reporting surnames, Social Insurance Numbers, pensionable earnings and/or contributions. In 1999-2000, CCRA reviewed such discrepancies in over 2.4 million T4 records. This resulted in \$5.8 billion in earnings and \$447 million in contributions being added to client records.

HRDC is working in partnership with the Quebec Pension Board (QPB), Canada Customs and Revenue Agency (CCRA), and

TABLE 16 — OVERPAYMENTS AND ADJUSTMENTS



the Ministère du Revenu du Québec (MRQ) to identify contributors whose surname and/or SIN on their T4 does not match an account. Discrepancies are primarily due to name changes as a result of marriage or divorce; although the name and SIN on the T4 are correct, they do not match those recorded on the account. Once the information has been correctly matched, the contributions can be assigned to the proper account. In 1999-2000, this joint initiative resulted in the placement of approximately \$1 million in unidentified client contributions in the proper CPP contributor's accounts.

REACHING OUT TO CANADIANS

A number of recent polls done by financial institutions and social research firms suggest Canadians are not prepared for retirement and that they do not fully understand the CPP and how it complements the other elements of retirement planning. Trends in saving, investment and demographics in Canada indicate that Canadians need more information to help them prepare for their retirement years — in fact, 83 percent of Canadians polled in an EKOS survey commissioned by HRDC said they wanted the federal government to provide basic, objective information about the entire retirement income system in Canada, including private investments.

HRDC has instituted a number of initiatives designed to "reach out" into the community to improve awareness and knowledge of the CPP and to demonstrate how the Plan fits into Canadians' overall retirement planning.

Outreach activities include public information sessions in local communities with a wide variety of partners in both the public and the private sector. HRDC continues to develop and maintain partnerships with educators, financial/investment planners, community leaders, parliamentarians, health care providers, band councils, and other government bodies.

Taking the program to the people
In March 2000, 12 Income Security Programs employees from the Edmonton office headed to Canada's North with their suitcases full of information and applications for the Canada Pension Plan and Old Age Security programs. They visited 12 communities to ensure that the people in this remote area were aware of the programs that they might be eligible to apply for. For most of the communities, this was the first visit from the CPP.

With the help of a translator, the staff were able to help more than 500 people who were eligible for benefits but had not applied.

During 1999-2000, departmental staff spoke directly with over 398,000 Canadians and distributed over 1.2 million information packages. They also formed 1,829 partnerships with private and public sector organizations and provided 387 training sessions for these groups.

Other outreach activities undertaken recently include a pilot CPP course for Nova Scotia high school students; expanded partnerships with funeral home directors to help Canadians understand when and how to apply for CPP survivor, orphan and death benefits; and published information on legislated benefits for same-gender couples.

Outreach initiatives currently under development include:

- a training/public information campaign to support the Information on the Retirement Income System initiative; and
- a multi-media product in collaboration with the Canadian Museum of Civilization, outlining the historical development of CPP/OAS from Confederation to the present.

Personalized Statements of Contributions

Canadians have access to a broad spectrum of CPP information that is continually being improved by refining and updating communications products and modes of delivery. CPP information is made available on the Internet, via direct mail, in the media, through partnerships with third-party specialists in the finance and pension fields and through a number of informative publications provided free of charge. Information on the CPP is also available on the CCRA website (http://www.ccra-adrc.gc.ca).

Many CPP contributors obtained information about their personal CPP account directly, through a Statement of Contributions they received in the mail. In 1999-2000, more than 2.7 million personalized statements were mailed to CPP contributors between the ages of 18 and 29. This was the first time many of this group

99/00 MNUAL REPORT OF THE CANADA PENSION PLAN

had received a Statement of Contributions: the insert that accompanied the Statement thus introduced them to the Canada Pension Plan.

In recognition of 1999's designation as "International Year of Older Persons", HRDC actively sought out those individuals 65 years and older who had contributed to the CPP but had never applied for a retirement pension. This special mailing of 55,800 Statements of Contributions included a letter inviting these contributors to apply, an application form, and a list of offices where they could send their applications. As of March 31, 2000, the department received 7,373 new benefit applications from this group. These new beneficiaries received a total of approximately \$8.5 million in retroactive payments and an average monthly pension of \$134.36 during the year.

As of 2000-01, a Statement of Contributions will be sent annually to all CPP contributors between the ages of 18 and 70. Application forms for a Statement of Contributions can also be downloaded from the CPP web site at http://www.hrdc-drhc.gc.ca/isp.

Splitting Pension Credits

Many CPP contributors are unaware that the CPP allows them to split their accrued pension credits between spouses or partners upon the dissolution of their marriage or common-law relationship. The credit-splitting provision is mandatory when there is a divorce, except in Saskatchewan, Quebec and British Columbia, where a couple can choose to opt out through a spousal agreement. Credit splitting has been available to separated spouses, upon application, since 1987.

Over the past eight years, various methods have been used to deliver credit-splitting information to divorced couples. Since February 1, 1999, spouses are being informed about the provision through an information sheet that

provincial courts include in mailings of divorce judgment documents. As a result, more than 7,500 applications for credit splitting were approved in 1999-2000.

Processing Benefits

HRDC is committed to providing high quality service. This commitment is reflected in the department's service standards:

- Clients are entitled to courteous and considerate treatment and complete and accurate information about their entitlements and obligations.
- Staff aim to keep the waiting time to meet a client service officer to a minimum. Waiting times will be posted.
- Clients are entitled to receive their first CPP payment within 35 days of a positive decision on their application.

CPP services are offered in person, by telephone and by mail. Information about the CPP is also available on the Internet and at approximately 5,200 electronic self-service kiosks. Some 3,700 of these are located in HRDC offices, and another 1,500 can be found in such locations as satellite offices, partnership organizations, community centres and malls.

Internet Services: Information about CPP programs and services is available online 24 hours a day. HRDC's site for Income Security Programs (http://www.hrdc-drhc.gc.ca/isp) provides current, citizen-centred information in an accessible format. Users can download and print key forms, obtain quick and accurate information, and send general enquiries to staff by e-mail.

Further information can also be found through CCRA publications, on the CCRA web site (www.ccra-adrc.gc.ca) or on the Department of Finance web site (www.fin.gc.ca).

Mail Service: HRDC has eleven mail-processing centres, located throughout Canada. These centres handle new applications, as well as various documents and enquiries. Staff there also review new applications and make decisions on the majority of new applications. In 1999-2000,

staff processed disability applications (which are complex and require medical information) within an average 61 days. Other types of applications were processed within 29 days (see Table 17).

TABLE 17 - SPEED OF PROCESSING NEW APPLICATIONS

National speed of service measures	Objective	1999-2000 National Average
Number of working days to process initial CPP applications		
(excluding disability applications)	28*	29
Number of working days to process initial CPP disability applications	62	61

^{*} The speed of service objective for CPP initial application processing was modified from 16 to 28 working days. The definition of the process now includes computer processing for payment, and is based on 100% automated census data and client consultations. The 16-day objective was based only on manual sampling.

TABLE 18 - CLIENT SERVICE VOLUMES BY SERVICE TYPE

	1997–1998	1998–1999	1999-2000	% change 1998-99 to 1999-2000
In-person interviews ¹	630,279	574,672	572,509	0.38% (-)
Telephone calls received by a service				
delivery agent ¹	3,424,789	3,281,561	3,370,272	2.70% (+)
New CPP applications processed	371,364	352,108	388,818 ²	10.43% (+)
New DSB applications adjudicated	70,109	64,049	59,538	7.04% (-)
Appeal decisions processed (HRDC and arm's-length appeal bodies)	34,913	. 34,054	30,346	10.89% (-)

¹ This data represents the total of CPP and OAS interviews/telephone calls received. Since these frequently cover both programs, CPP data is not available in isolation.

² This is based on 100% automated census data.

In-Person Service: There are 320 Human Resources Client Centres (HRCCs) across Canada. These centres handle enquiries, accept documents and provide detailed benefit and process information. Table 18 gives a summary of the volume of services provided over the past three years.

Telephone Service: Ten HRDC telephone centres located throughout Canada handle client enquiries and accept requests for applications. Clients are encouraged to do their business by telephone (volumes reported in Table 18 indicate that this is the type of service most prefer). Table 19 presents more detailed information pertaining to telephone service. High call volumes in the latter weeks of the last quarter of 1999-2000 because of a combination of seasonal pressure (T4 period) and technical difficulties led to a decline in "accessibility performance" as tele-centres scrambled to meet the increased demand. To improve accessibility, the telecentres took steps to improve capacity, and at the same time adjusted processes to improve service quality. Telephone agents received feedback and training on call handling, accuracy of information and telephone skills. Web-based reference material was also made available to tele-centre agents, allowing them to increase their knowledge in specific areas and improve the overall consistency of responses.

Issuing Payments

Although client accounts are maintained by HRDC, it is Public Works and Government Services Canada (PWGSC) that issues payment. In 1999-2000, PWGSC issued 40.4 million payments on behalf of the CPP. This compares to 39.9 million in 1998-99 and 39.4 million in 1997-98. During the 1999-2000 fiscal year, 32.5 million payments were issued as direct deposit payments (80.3 percent) compared with 32 million in 1998-99. Direct deposit is, by far, the preferred method of payment.

TABLE 19 - TELEPHONE SERVICE STATISTICS

	1997-98	1998-99	1999-2000
Percent of clients accessing the HRDC telephone system			
on the first attempt ¹	98.0%	98.4%	98.7%
Percent of clients served by an HRDC service agent within			
180 seconds of placing their call ²	92.1%	94.9%	88.6% ³
Average time spent waiting in a telephone queue for the call			
to be answered	35 sec.	37 sec.	56 sec.
Average time that clients speak with an HRDC service agent	241 sec.	235 sec.	228 sec.

¹ The data in this table is based on CPP and OAS totals. Speed of service does not vary between programs.

² Objective for Access I and II is 95%

³ This result is lower than expected because of performance shortfalls during the hectic Guaranteed Income Supplement (GIS) renewal period

APPEALING A DECISION

Individuals who are dissatisfied with a decision made on an application for CPP benefits have three opportunities to appeal the decision. Almost 95 percent of all appeals concern an application for disability benefits.

Appeals to the Minister of HRDC

The first level of appeal involves a request to the Minister of HRDC for a "reconsideration" or administrative review of a decision concerning a benefit or a division of pension credits. A request must be made within 90 days of receiving the initial decision. A departmental adjudicator who was not involved in the initial decision then carries out a review of the file on behalf of the Minister. The number of requests for reconsiderations declined from 19,200 in 1998-99 to 15,354 in 1999-2000 (see Table 20).

During that same period (between April 1998 and March 2000), the number of benefits awarded at appeal decreased from 28 to 23 percent (see Table 21).

Appeals to the Office of the Commissioner of Review Tribunals

A person who is not satisfied with the decision made at the departmental reconsideration level can appeal to a Review Tribunal. A Review Tribunal is an independent, impartial tribunal made up of three people chosen by the



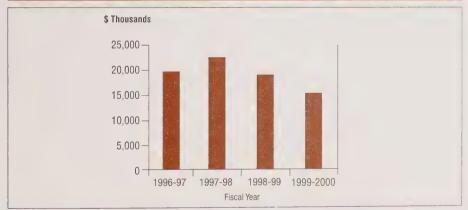


TABLE 21 - GRANTS VERSUS DENIALS - FIRST-LEVEL APPEALS

	1997-98	1998-99	1999-2000
First-level appeals received	22,349	19,200	15,354
Disability benefits granted	7,144	6,317	3,787
Disability benefits denied	19,034	16,135	12,638
Percentage of benefits awarded at appeal	27%	28%	23%

TABLE 22 - REVIEW TRIBUNAL - SECOND-LEVEL APPEALS

Description	1997–98	1998–99	1999–2000	Percentage change
Second-level appeals on hand April 1		8,885	7,811	12.0% (-)
Second-level appeals received during				
the fiscal year		9,700	8,913	8.1% (-)
Appeals settled/withdrawn	N/A	1,952	2,647	35.6% (+)
Appeals to be heard*	16,490	16,633	14,077	15.4% (-)
Appeals finalized	7,605	8,822	9,340	5.9% (+)
Appeals heard but not finalized	320	617	888	43.9% (+)
Appeals on hand March 31	8,885	7,811	4,737	39.4% (-)

^{*} Does not include re-hearings under subsection 84(2) and appeals withdrawn at hearing.

Commissioner of Review Tribunals from a panel of 100 to 400 part-time members who are appointed by Order-in-Council. The chairperson is always a lawyer. In appeals involving disability benefits (over 95 percent of the total), one of the other members must be a health care professional. Hearings are informal, closed to the public, and usually held in or near the appellant's community. Table 22 provides an overview of the workload of Review Tribunals during the past three years.

During fiscal 1999-2000, more hearings were held than new appeals received. More than 11,000 appeals were finalized as a result of a Review Tribunal decision or settlement or because the appeal was withdrawn without the need for a hearing. Appeals remaining at yearend have been reduced considerably and mostly represent appeals for which hearings have been delayed at the request of appellants or for which the documentation has not yet been received from the department.

Appeals to the Pension Appeals Board

The Pension Appeals Board is a quasi-judicial tribunal that operates at arm's length from HRDC. It is the final opportunity for appeal under the Canada Pension Plan. Members of the Pension Appeals Board are federal or provincial court judges or former judges appointed by the Governor in Council. To deal with the increasing workload, 25 additional members were recently appointed, bringing the membership to 63, including the Chairman and Vice-Chairman. Hearings are not automatic at this level, as they are at the first two levels of appeal. Claimants (or the Minister of HRDC) must request "leave to appeal". Of the over 3,000 applications received in 1999-2000, 99 percent concern CPP disability benefits; only a small number came from the Minister.

Appeals are heard by the Board as "de novo" (new) hearings and take place in centres across Canada. Written reasons for decisions are provided for every case and leading decisions are published annually. Decisions of the Board,

TABLE 23 - PENSION APPEALS BOARD - THIRD-LEVEL APPEALS

Description	1996–97	1997-98	1998-99	1999-2000
Appeals carried over	1,068	1,984	4,060	3,856
Applications received	1,800	3,106	2,915	3,392
Decisions rendered	884	1,030	3,119	3,291
Pending at end of fiscal year	1,984	4,060	3,856	3,957

except as provided in sections 18 and 28 of the *Federal Court Act*, are final and binding for the purposes of the Canada Pension Plan.

The Board is also exploring the use of dispute resolution services.

The increasing workload arising from the volume of new applications has led to extensive efforts to expand the Board in order to better serve claimants.

Table 23 provides an overview of the Board's work in progress.

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PARTNERSHIPS PROTECT BENEFICIARIES

CANADA'S INTERNATIONAL SOCIAL SECURITY AGREEMENTS

Many Canadians live and work abroad. Many others move here after having contributed to a pension plan in another country. This can affect the amount of their pension later in life. Canada's social security system has been designed to protect this pension income through a number of international agreements. The basic objectives of these agreements are:

- to reduce or eliminate citizenship-based restrictions that prevent Canadians from receiving pensions from another country;
- to permit continuity of social security coverage when a person is temporarily working in another country, and prevent situations where a person must contribute to the social security programs of two countries for the same work;
- to make it easier to become eligible for benefits by adding together creditable periods under the schemes of two or more countries; and
- to reduce or eliminate restrictions on the payment of pensions abroad.

As of March 31, 2000, agreements were in force with 38 countries; agreements with Morocco, Slovenia, Turkey and Uruguay had been signed, but were not yet in force. Other agreements were under negotiation with the Czech Republic, Hungary, Israel, Poland and

Slovakia. Table 24 shows the number and amount of benefits paid under social security agreements for 1998 and 1999.

In 1998, the most recent year for which information is available, the total amount of foreign pension benefits that came into Canada from other countries exceeded \$1.6 billion. By contrast, about \$354 million was paid by Canada in OAS and CPP benefits to persons living outside Canada. Altogether, six times as much money came into Canada in benefits through its social security agreements as was paid out.

Coverage Under International Agreements

In accordance with Canada's social security agreements with many countries, CCRA issues "certificates of coverage" to confirm that a particular worker is covered under Canada's social security laws for a particular employment or activity. These certificates can be used to claim an exemption from contributions under the laws of the other country for that employment. Each agreement provides for a maximum initial period of coverage (usually three years). However, an "extension of coverage" may be granted, at the request of the employer and with the approval of the host country.

In 1999-2000, CCRA issued 2,454 certificates and 356 extensions. Foreign employers without a place of business in Canada may apply to have coverage under the CPP for

TABLE 24 - CPP BENEFITS UNDER SOCIAL SECURITY AGREEMENTS

Calendar year	Number of benefits paid in month of December	Total benefits paid throughout year
1998	4,604	\$13,298,000
1999	4,752	\$13,842,000

employment they provide in Canada. To help interested parties understand their rights and obligations, CCRA's tax service offices offer seminars on various aspects of the CPP.

PARTNERSHIP WITH THE QUEBEC PENSION PLAN (QPP)

As noted earlier, the Canada Pension Plan and the Quebec Pension Plan are complementary plans. Since Quebec opted to administer its own pension plan, people who work in Quebec contribute to the QPP rather than the CPP. Administrators of both plans meet regularly to discuss issues of common concern to the more than 1.8 million Canadians who have contributed to both plans (called dual contributors), including some 181,000 current recipients of benefits. To make the process as seamless as possible, the CPP and QPP maintain 10 information-sharing agreements that support the efficient administration and processing of common client files.

In 1999-2000, HRDC and QPP administrators continued to work cooperatively, developing a strategy for 2000-2001 that will further address the potential for duplication, thus reducing the risk of payment errors.

Going the extra mile

A 75-year old woman contacted HRDC's International Benefits and Foreign Affairs division during the year, explaining she had recently lost her husband and that her income had been drastically reduced as a result. She asked whether she might be entitled to receive a small pension from the U.S., based on her periods of work there during the 1950s. She could not recall whether she had contributed to the U.S. Social Security scheme at that time.

HRDC contacted the Social Security Office in Baltimore to find a record of the client's work history in the U.S. At first they found nothing, but after an extensive investigation and numerous conversations with the client, they found that she had been married to an American citizen who had passed away almost forty years before. With the death of her second husband, she was entitled to have her U.S. widow's pension re-instated. The HRDC employee delivered the necessary application forms to the client's home and helped her complete them. She was awarded a benefit from the U.S. of more than \$1,000 a month, paid retroactively to the time of her second husband's death.

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OTHER AGREEMENTS

HRDC continues to seek opportunities to enter into reimbursement and information-sharing agreements with other government bodies and private insurers.

Reimbursement agreements allow the CPP to reimburse all or a part of a beneficiary's retroactive CPP payments to other organizations to cover the costs those organizations incurred while paying that person during a period when he or she was eligible for a CPP benefit but was not receiving it. Provincial authorities can now be reimbursed for social assistance payments they made to persons who were subsequently found eligible for CPP benefits.

In 1999-2000, there were 12 such agreements in place with provincial/territorial governments. These agreements protect CPP contributors from getting into untenable situations with

either their insurance company or a provincial social assistance agency. They also ensure that these organizations will continue to pay CPP contributors the benefits they are due even when eligibility for disability benefits is pending. This provides a bridge of financial security for Canadians during the transition to disability benefits.

Five similar agreements with provincial workers' compensation boards are in effect, and negotiations are currently underway with another two boards. Four of the five agreements allow reimbursement for retroactive portions of disability benefits.

The CPP also has 34 reimbursement agreements with private insurers. This is fewer than the number of agreements reported in previous years because of a number of recent insurance corporation mergers.

SUPPORTING THE PLAN

CPP computer systems were upgraded well ahead of the Year 2000 transition, and no problems occurred.

Another major systems-related initiative in 1999 gave HRDC staff online access to contributors' record-of-earnings information. This access improved client service and made benefit adjudication and responding to enquiries easier and faster.

Two major improvements to the CPP computer system were initiated during 1999-2000:

- New data storage and retrieval features were added to improve support to external partners, such as provincial social services departments and workers' compensation boards.
- A new access feature will give HRDC frontline staff access to a client's full payment history online. This will improve speed of service to clients and reduce lost time.

With the Y2K project successfully completed, efforts in 2000-01 will focus on catching up on necessary maintenance activities and continuing to modernize delivery systems.

Ensuring Program Integrity

HRDC carries out annual reviews of CPP retirement, disability and survivor accounts to ensure that benefit amounts are being paid correctly. In 1999-2000, staff reviewed a random sample of CPP files selected from the previous payment year (1998).

An analysis of the data indicated that the amount paid as a result of error or fraud was about \$31.3 million, or approximately 0.2 percent of the total paid out in CPP benefits. The result falls within the statistically acceptable error rate.

Nevertheless, in an effort to reduce error, five special reviews were initiated in 1999-2000 to look at specific areas of risk to the CPP program.

The reviews identified approximately \$1.8 million in potential savings to the CPP. Table 25 summarizes the preliminary results.

TABLE 25 - SUMMARY OF CPP REVIEWS IN 1999-2000

Reviewed	Potential savings to the CPP
Identified beneficiaries between the ages of 18 and 25 who were receiving a children's benefit but were no longer in full-time attendance at a recognized educational institution, and were thus ineligible.	\$949,000
Measured the extent of error in the application of the Child Rearing Dropout Provision.	\$273,000
Identified recipients of CPP survivor benefits who were receiving more than one survivor benefit, or were also receiving a retirement or disability pension that had not been assessed in the calculation of the survivor benefit.	\$121,000
Identified CPP beneficiaries who were listed as deceased on CCRA records (data based on 1998 and previous tax years) but whose files were still active in CPP records and whose benefits continued to be paid.	\$456,400
Identified survivor benefit recipients under the age of 45 who were receiving full benefits to which they were not entitled because they had no dependent children and were not disabled according to the CPP definition.	\$32,400
Total	\$1,831,800



Fraud Investigations

In 1999-2000, the CPP referred 54 cases of suspected fraud to the RCMP for criminal investigation, with a total potential saving to the CPP of close to \$1.2 million. Thirty-eight of these cases were related to the CPP disability benefit. In the same fiscal year, 26 people were convicted under the Criminal Code of Canada of defrauding the CPP of various amounts. Approximately \$597,305 was recovered in 1999-2000 as a result of fraud investigations.

Accounts Receivable

In 1999-2000, HRDC Collection Services recovered \$7.4 million in reimbursement for benefit overpayments, and a further \$16.8 million was withheld from ongoing benefits. The total returned to the CPP was \$24.2 million.

Changes to Legislation and Regulations To modernize and streamline the CPP legislation, a number of changes were implemented in 1999-2000:

• The amended Regulations associated with Bill C-2, An Act to establish the CPP Investment Board and to amend the CPP and the OAS Act and to make consequential amendments to other Acts

- (Chapter 40 of the Statutes of Canada 1997) came into effect on April 22, 1999. The Regulations were amended to better reflect the intent of the Act.
- Following proposals by the Standing Joint Committee for the Scrutiny of Regulations, minor changes were made to the *Canada Pension Plan Regulations* (effective March 30, 2000) to ensure ongoing regulatory consistency with the Plan.
- Changes to the CPP Regulations under Part I were also implemented, effective January 1, 2000, to reflect the increase in the contribution rate and in the year's maximum pensionable earnings.

Charter Challenges

• The CPP has been the subject of several challenges under the Canadian Charter of Rights and Freedoms, and a number are currently under judicial review. During 1999-2000, one such challenge was resolved: on March 25, 1999, the Supreme Court of Canada rendered a unanimous decision that the CPP does not discriminate against widows and widowers under the age of 45 on the basis of age.

LOOKING TO THE FUTURE

The changes that the federal and provincial governments have made to the CPP are expected to be sufficient to allow it to meet the increased financial demands and the service delivery challenges that will result from the increases in the number of beneficiaries expected in the coming years.

In 1999-2000, the CPP made benefit payments to approximately 3.5 million Canadians. The Plan receives over 250,000 new applications each year for various benefits, and the numbers are expected to rise dramatically. Service delivery in this environment requires significant effort to assure accuracy and timeliness.

To meet the significant increase in demand for CPP services and benefits, the government has made the updating of the support systems that help deliver the Plan a priority, beginning with an information technology renewal plan to upgrade and replace existing computer systems and the technology that supports them.

The plan will evolve over the next five to seven years and will support better management decisions by improving the information available to management, clients and staff through a faster and more up-to-date technological infrastructure and revitalized systems.

It will also ensure that the objectives of the federal government's Government On-Line (GOL) initiative are met (the commitment to make the Government of Canada the most electronically connected government in the world to its citizens by 2004 and to provide Canadians with electronic access to federal information and services). Long-term GOL initiatives include the implementation of a web-based client system that will permit a wider range of enquiries and client transactions to take place online. In this context, the importance of strengthening our technological framework is clear, especially since the fastest growing group of Internet users is the senior population.

The CPP will be reviewing its programs and regulations to ensure that they also support the new electronic service environment, with particular emphasis on protecting personal information and program integrity.

Communication Is Key

Much of the decline in the low-income rate among Canadian seniors in recent decades has been attributed to the existence of public pensions such as the CPP.

But many people still lack basic information about what to expect from the retirement income system and how they should prepare for their own retirement. The CPP will continue to improve and personalize its outreach programs and strive to communicate as directly as possible with its clients.

Contributors will receive their Statement of Contributions on an annual basis to help them assess their own situation, and there are plans for an online pension calculator to be introduced, enabling Canadians to calculate personal benefits and review retirement options. Contributors will also eventually be able to file requests for Statements of Contributions and address changes electronically.

The focus on client service will be underlined by a new service charter, setting out service standards that clients can expect. At the same time, clients will be asked to provide feedback to enable staff to provide service that is effective and tailored to their needs. A case-management approach will gradually be introduced to make contact and follow-up with clients both personal and assured.

In short, the focus will be on earlier and more personalized contact with clients, more timely follow-up and more active support for those wishing to return to work or to make the transition to retirement — and on providing the tools to support that service.





APPENDIX A

THE CANADA PENSION PLAN

Financial Statements

FOR THE YEAR ENDED MARCH 31, 2000

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The financial statements of the Canada Pension Plan have been prepared by management of Human Resources Development Canada in accordance with the accounting policies set out in Note 2 to the financial statements.

Management is responsible for the integrity and objectivity of the data in these financial statements, including the amounts which must, of necessity, be based on estimates and judgements. The financial information presented throughout the Annual Report is consistent with the financial statements.

In support of its responsibility, management has developed and maintains books of account, financial and management controls, information systems and management practices. These are designed to provide reasonable assurance as to the reliability of the financial information, and to ensure that the transactions are in accordance with the *Canada Pension Plan* and regulations, as well as the *Financial Administration Act* and regulations.

The Auditor General of Canada, the external auditor of the Canada Pension Plan, has conducted an independent audit of the financial statements in accordance with generally accepted auditing standards and has reported to the Minister of Human Resources Development.

Alan Winberg Assistant Deputy Minster

Financial and Administrative Services

Jim Lahey

Associate Deputy Minister

Date





AUDITOR GENERAL OF CANADA

VERIFICATEUR GÉNÉRAL DU CANADA

AUDITOR'S REPORT

To the Minister of Human Resources Development

I have audited the statement of net assets of the Canada Pension Plan as at March 31, 2000 and the statement of changes in net assets for the year then ended. These financial statements are the responsibility of the management of Human Resources Development Canada. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Canada Pension Plan as at March 31, 2000 and the changes in its net assets for the year then ended in accordance with the significant accounting policies set out in Note 2 to the financial statements.

L. Denis Desautels, FCA Auditor General of Canada

Ottawa, Canada July 19, 2000



STATEMENT OF NET ASSETS AS AT

MARCH 31 (IN MILLIONS OF DOLLARS)

	2000	1999
Assets		(Note 3)
Investments		
CPP Investment Fund – at cost (Note 4)	30.299	30.833
CPP Investment Board net assets (Note 5)	2,392	12
Cash and cash equivalents		
Deposit with Receiver General for Canada	6,261	5,447
Short-term investments	-	619
Receivables		
Contributions	1,170	1,005
Accrued interest	1,172	1,211
Régime des rentes du Québec	6	6
Beneficiaries (Note 6)	46	53
	41,346	39,186
Liabilities		
Accounts payable	32	24
Accrued pensions and benefits	53	62
	85	86
Net Assets	41,261	39,100
Net Assets, represented by:		
Canada Pension Plan Investment Fund	30,299	30,833
Transfers to Canada Pension Plan Investment Board	1,932	12
Accumulated net income from Investment Board's operations	460	
Canada Pension Plan Account (Note 7)	6,261	6,066
Receivables, net of liabilities	2,309	2,189
Net Assets	41,261	39,100

The accompanying notes are an integral part of these financial statements.

Approved by Human Resources Development:

Alan Winberg

Assistant Deputy Minster
Financial and Administrative Services

Jim Lahey
Associate Deputy Minister



STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED MARCH 31

(IN MILLIONS OF DOLLARS)

2000	1999
	(Note 3)
Net assets, beginning of year 39,100	38,792
Increase in assets	~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~
Contributions (Note 8) 17,037	14,924
Investment Income (Note 9) 4,238	3,891
21,275	18,815
Decrease in assets	
Pensions and Benefits (Note 10)	
Retirement 12,902	12,379
Survivors The fact to the state of the state	2,563
Disability 2,559	2,585
Disabled Contributor's Child 245	249
Death 222	225
Orphan 202	202
18,799	18,203
Administration costs (Note 11) 315	304
19,114	18,507
Increase in net assets 2, 161	2 4, 5 308
Net assets, end of year 41,261	39,100

The accompanying notes are an integral part of these financial statements.



NOTES TO FINANCIAL STATEMENTS MARCH 31, 2000

1. DESCRIPTION OF THE CANADA PENSION PLAN

a) Description of the CPP

The Canada Pension Plan (CPP) is a federal/provincial plan established by an Act of Parliament in 1965.

The CPP began operations in 1966. It is a compulsory and contributory social insurance program operating in all parts of Canada, except Quebec, which operates the Régie des rentes du Québec, a comparable program. The Plan's objective is to provide a measure of protection to workers and their families against the loss of earnings due to retirement, disability or death.

The Minister of Human Resources Development is responsible for the administration of the Canada Pension Plan (the CPP Act); the Minister of National Revenue is responsible for collecting contributions. The Minister of Finance and his provincial counterparts are responsible for setting CPP contribution rates, benefit levels and funding policy.

The financial activities of the Canada Pension Plan are recorded in the CPP Account (Note 7). The CPP Investment Fund (Note 4) holds the bond portfolio of the Plan, and the Plan's investments in capital markets are managed by the CPP Investment Board (Note 5). The financial transactions affecting the Account and the Investment Fund are governed by the CPP Act and regulations. The Investment Board's transactions are governed by the Canada Pension Plan Investment Board Act and the accompanying regulations.

As stated in the CPP Act, changes to this Act require the approval of at least two-thirds of the provinces having, in the aggregate, not less than two-thirds of the population of all included provinces.

b) Financing

CPP is financed by contributions and investment returns.

Employers and employees pay contributions equally to CPP. Self-employed workers pay the full amount.

CPP was designed initially to be financed on a pay-as-you-go basis, which means that the Plan would operate on a current basis with pensions and benefits being paid out of current contributions. With changes made to the Act in 1997, CPP is now intended to be funded on a "steady-state" basis – that is, combined contributions are planned to increase to 9.9% of pensionable earnings by 2003 and are then expected to level off.

From 1966 to 1986, the combined employer-employee contribution rate remained at 3.6% of pensionable earnings. In 1987, it was raised to 3.8% and has increased yearly by 0.2% to reach 5.6% in 1996. In 1997, 1998 and 1999, the combined contribution rate was increased by 0.4%, 0.4% and 0.6% respectively. In 2000, it was increased by 0.8% to reach 7.8%. The maximum combined contribution for 2000 was \$2,660 (1999 – \$2,373).



The CPP Act provides that an actuarial report shall be prepared every three years for purposes of the review of the financial state of the CPP by the Minister of Finance and his provincial counterparts. The Seventeenth Actuarial Report of the Chief Actuary of the Office of the Superintendent of Financial Institutions was tabled in the House of Commons in December 1998. Federal and provincial ministers of Finance concluded at the end of the Triennal Review process that the CPP's financial health is sound and that the 9.9% combined employee-employer contribution rate which will be reached in 2003 is expected to be sufficient to sustain the Plan in the face of an aging population.

c) Net assets of the Plan

The net assets of the Plan are composed of the deposit with the Receiver General for Canada, short term and long term investments in bonds and investments in capital markets managed by the CPP Investment Board. The net assets represent funds accumulated for the payment of pensions, benefits and administration costs. This amount does not cover the actuarial present value of accrued pensions and benefits. As at March 31, 2000, the net assets of the Plan are of \$41.3 billion (1999 – \$39.1 billion). This amount represents 2.2 times the total of pensions and benefits for the year 1999-2000.

d) Pensions and benefits

Retirement pensions – A retirement pension is payable to each contributor at age 60 or older, according to the provisions of the Act. The monthly amount is equal to 25% of the contributor's average monthly pensionable earnings during the pensionable period. The amount may be reduced or increased depending upon whether the contributor applies for a retirement pension before or after age 65. This adjustment cannot exceed 30%. The maximum monthly pension payable at age 65 in 2000 is \$762.92 (1999 – \$751.67).

Disability benefits – A disability benefit is payable to a contributor who is disabled, according to the provisions of the Act. The amount of the disability benefit to be paid includes a flat-rate portion and an amount equal to 75% of the earned retirement pension. The maximum monthly disability benefit in 2000 is \$917.43 (1999 – \$903.55).

Survivor's benefits – A survivor's benefit is payable to the surviving spouse of a deceased contributor, according to the provisions of the Act. For a spouse under the age of 65, the benefit consists of a flat-rate portion and an amount equal to 37.5% of the deceased contributor's earned retirement pension. A surviving spouse between the ages of 35 and 45 who is not disabled or who has no dependent children receives reduced benefits. For spouses aged 65 and over, the benefit is equal to 60% of the retirement pension granted to the deceased contributor. The maximum monthly benefit payable to a surviving spouse in 2000 is \$457.75 (1999 – \$451.00).

Disabled contributor's child and orphan benefits – According to the Act, each child of a contributor who is receiving disability benefits or who died is entitled to a benefit as long as the child is under the age of 18, or is between the ages of 18 and 25 and attending school full-time. The flatrate monthly benefit in 2000 is \$174.07 (1999 – \$171.33).

Death benefits – According to the Act, a death benefit is a one-time payment to, or on behalf of, the estate of a contributor. The benefit amounts either to 10% of the maximum pensionable earning in the year of death or six times the monthly retirement pension granted to the deceased contributor, whichever is less. The maximum death benefit in 2000 is \$2,500 (1999 – \$2,500).

Pensions and benefits indexation – As required by the Act, pensions and benefits are indexed annually based on the Consumer Price Index for Canada. The rate of indexation for 2000 is 1.6% (1999 – 0.9%).

2. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of presentation

These financial statements present the net assets and the changes in net assets of the Canada Pension Plan. They do not provide information on the actuarial estimates required to meet future obligations of the CPP. The CPP Act does not require that the pensions and benefits be pre-funded.

The financial statements are prepared in accordance with relevant acts and regulations. They have been prepared on the accrual basis of accounting and they include amounts which must, of necessity, be based on management's best estimates and judgements.

The CPP, which is under joint control of the Government of Canada and participating provinces, is not considered to be part of the reporting entity of the Government of Canada. Accordingly, its financial activities are not consolidated with those of the Government.

b) Valuation of investments

Bonds are shown at cost, which is equal to the face value of the bonds at the time of purchase.

CPP Investment Board's investments are stated at fair value. Fair value is the amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. Market prices for securities and unit values for pooled and mutual funds are used to represent fair value for the investments.

Short-term investments are valued at cost.

c) Contributions to the Plan include CPP contributions collected by the Canada Customs and Revenue Agency (CCRA) for the year, including receivables at year-end. Funds transferred by the CCRA are estimated and are subject to review and adjustments. Adjustments, if any, are recorded as contribution revenue in the year they are known.

d) Investment income recognition

Interest income is recorded in the year in which it is earned.

CPP Investment Board's net income from operations represents the total of income from interest, realized and unrealized gains and losses, less investment and administrative expenses. Unrealized gains and losses on investments held at year-end represent the change in the difference between fair value and cost of investments at the beginning and end of each year.

e) Pensions and benefits are recorded when payable and are presented net of pension and benefit overpayments established during the year.



f) Administration costs are recorded in the year to which they relate.

3. ACCOUNTING CHANGES

During the year, the Canada Pension Plan adopted the accrual basis of accounting for revenues and expenses, and prepared a complete set of financial statements including a statement of net assets and a statement of changes in net assets. These changes have been applied on a retroactive basis and the figures for 1999 have been restated.

The effect of the introduction of the accrual basis of accounting increased the net assets of the Plan as at March 31, 2000 by \$2.3 billion (1999 – \$2.2 billion). The result of changing the basis of accounting for the year ended March 31, 2000 increased revenue by \$126 million (1999 – \$89 million) and decreased expenses by \$23 million (1999 – increase of \$8 million) on the Statement of Changes in Net Assets.

4. INVESTMENT HELD BY THE CPP INVESTMENT FUND

The Canada Pension Plan Investment Fund was established in the accounts of Canada by the CPP Act to record the Plan's investments in bonds of the provinces, territories and Canada. The CPP Investment Fund's bond portfolio is administered by the federal Department of Finance.

Until the end of 1997, the investments in provincial, territorial and federal government bonds were made with the cash on hand in excess of the Plan's forecast three-month operating requirement. These bonds were not marketable and had a 20-year term (or less) as fixed by the Minister of Finance on the recommendation of the Chief Actuary of the Office of the Superintendent of Financial Institutions. The interest rate on the bonds was determined by the Minister of Finance based on the average yield to maturity of all outstanding Government of Canada obligations with terms of 20 years or more. When these bonds matured, funds not required for payment of pensions and benefits were re-invested in new bonds.

Beginning in 1998, a maturing provincial or territorial bond may be re-invested in a new bond only once for a term of 20 years, if both the issuer asks to do so and the operating balance is sufficient to pay current pensions and benefits. Excess funds not re-invested are transferred to the CPP Investment Board.

The re-invested bonds remain not marketable and bear interest at a rate fixed by the Minister of Finance. The interest rate is substantially the same as that the province would pay if it were to borrow the same amount for the same term through the issuance of a bond on the public capital markets.

All disposals of bonds are made, at maturity date, at face value. Interest earned on the investments is paid semi-annually to the CPP Account. The bonds are redeemable in whole or in part before maturity only at the option of the federal Minister of Finance where he considers the redeemed at face value.

99/10

At March 31, 2000, the balance in the Investment Fund was \$30.3 billion at cost (1999 – \$30.8 billion). The estimated fair value of the balance in the Investment Fund, including accrued interest, is \$37.5 billion (1999 – \$40.9 billion). This estimate is calculated by discounting the bonds' contractual cash flows at rates currently available at year end for similar investments.

The following schedule provides information on the disposals, re-investments and balance of the Investment Fund.

Bonds, at cost
(in millions of dollars)

	March 31,			March 31,
	1999	Disposals	Re-investments	2000
Newfoundland	638	40	35	633
Prince Edward Island	141	8	7	140
Nova Scotia	1,173	74	74	1,173
New Brunswick	843	54	47	836
Quebec	97	7	6	96
Ontario	13,235	988	870	13,117
Manitoba	1,599	107	. 15	1,507
Saskatchewan	1,377	82	46	1,341
Alberta	3,995	219	ethink	3,776
British Columbia	4,287	282	245	4,250
Yukon Territory	4	Mint	ron	4
Canada	3,444	18	pto	3,426
	30,833	1,879	1,345	30,299

The following schedule presents the classification of bonds by maturity dates and the weighted average annual rate of return on bonds currently held.

(in millions of dollars)

	2000		1999	
	Investment at cost	Average yield	Investment at cost	Average yield
Investments maturing				
Within 1 year	1,973	12.66%	1,880	10.48%
1 – 5 years	9,534	13.79%	9,224	13.65%
Over 5 years	18,792	9.84%	19,729	10.50%
Total – Investments	30,299		30,833	
Weighted average yield on investments		11.27%		11.44%



5. NET ASSETS OF THE CPP INVESTMENT BOARD

The Canada Pension Plan Investment Board was established by an Act of Parliament in 1997. The Canada Pension Plan Investment Board Act came into force on April 1, 1998. The purpose of the Board is to invest the funds transferred by the CPP in a diversified portfolio of securities. The Board is designed to operate at arm's length from the government and it is required to be accountable to the public, the Minister of Finance and his provincial counterparts through regular reports.

The following schedule provides information on the Board's investments and net assets as at March 31.

(in millions of dollars)

	2000	1999
anadian equities, at fair value		
Emerald Canadian Equity Funds	1,736	10 to 10
Canadian equity account	218	and the state of the state of
on Canadian equities, at fair value		
Barclays Global Investors Canada Limited		
US Equity Index Fund (Canada) EAFE Equity Index Fund B	220	- 3. 1 apple 1
EAFE Equity Index Fund B	219	1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1

As at March 31, 2000, the Regulations under the Canadian Pension Plan Investment Board Act require the Board's Canadian equities to substantially replicate the composition of one or more broad market indexes. Investments in the Canadian equity account are physical securities which, when combined with the Emerald Canadian Equity Funds, substantially replicate the composition of the Toronto Stock Exchange 300 Composite Index. Note 9 sets out the net income from operations of the Investment Board.

The CPP Investment Board audited financial statements for the year ended March 31, 2000 are publicly available and provide details concerning the Board's investment policy, its investments and portfolio return.



6. RECEIVABLES FROM BENEFICIARIES (in millions of dollars)

	2000	1999
Balance of pensions and benefits overpayments	75	82
Less: allowance for doubtful accounts	29	29
	46	53

Human Resources Development Canada has procedures to detect overpayments. During the year, overpayments totalling \$30 million (1999 - \$41 million) were established and remissions of debts totalling \$13 million (1999 - \$6 million) were granted. A further \$24 million was recovered (1999 - \$28 million).

7. CANADA PENSION PLAN ACCOUNT

The CPP Account was established in the accounts of Canada by the CPP Act, to record the contributions, interest, pensions, benefits and administration costs of the Plan. It also records the amounts transferred to or received from the CPP Investment Fund and the CPP Investment Board.

The balance of the CPP Account as at March 31 includes:

	C+	• 1	1 *	0 '	1 11	1
(ın	mil	lions	of c	lol	lars)

	2000	1999
Deposit with Receiver General for Canada	6,261	5,447
Short-term investments	1900	619
	6,261	6.066

8. CONTRIBUTIONS

The Department of Finance estimates annual contributions based on a forecast of pensionable earnings. That forecast of pensionable earnings is based on a formula using many factors such as the growth in the number of contributors and in the average pensionable earnings. Although the Department of Finance uses recent data and statistics in the calculation, a variation may occur in the factors used to estimate those earnings. For example, a variation of one percentage point in the number of contributors or in the average pensionable earnings for 1999, would result, in each case, in a change of \$162.5 million (1998 – \$142 million) in estimated contributions.

The Canada Customs and Revenue Agency (CCRA) transfers contributions to the CPP based on the Department of Finance's estimate of contributions to be collected for a calendar year and on its own contribution collection schedule for the year. Actual pensionable earning and contribution amounts for 1999 and 2000 will only be known once the CCRA has processed all employers' and self-employed workers' declarations of contributions for 1999 and 2000.



Adjustments, if any, are recorded in the year in which they are known. The reimbursements for 1998 and preceding years, paid in 1999-2000, amounted to \$138 million (1999 – reimbursement of \$5 million).

9. INVESTMENT INCOME (in millions of dollars)

20	000	1999
Interest on bonds held by the CPP Investment Fund 3,	463	3,592
Interest on deposit with the Receiver General for Canada at a weighted-average rate of 4.56% (1999 - 4.80%)	266	* 261
Interest on short term investment with Canada, at a weighted average rate of 4.71% (1999 - 4.87%)	49	38
nvestment Board net income from operations		
Realized gains (net) Interest income	89 15	
Unrealized gains (net) and provided a secretary representation of the secretary and	359	المعادية المالية المالي
Less: Investment and administrative expenses	(3)	
	460	12. 11. m
4,	238	3,891

10. PENSIONS AND BENEFITS MISPAYMENTS

Given the nature of the Plan and the number of applicants and beneficiaries, from time to time overpayments and underpayments of pension and benefit payouts may be made.

Human Resources Development Canada undertook a study of the extent and nature of pension and benefit mispayments based on the 1998 payment year. It estimated through statistical extrapolation, the most likely value of undetected mispayments to be \$31.3 million (1999–\$55.6 million). This includes underpayments of \$24.4 million (1999 – \$36.6 million) and overpayments of \$6.9 million (1999 – \$19 million).



11. ADMINISTRATION COSTS (in millions of dollars)

	2000	1999
Pension and benefit delivery, accommodation and corporate services (Human Resources Development Canada)	242	211
Collection of contributions (Canada Customs and Revenue Agency)	58	76
Cheque issue and computer services(Public Works and Government Services Canada)	14	15
CPP Investment Board	_	1
Actuarial services(Office of the Superintendent of Financial Institutions)	1	1
	315	304

Administration costs of the Account represent the cost of services received from a number of federal government departments, an agency and a board. Those costs are charged to the Account in accordance with memoranda of understanding.

12. SUBSEQUENT EVENT

The 2000 Budget Implementation Bill received Royal Assent on June 29, 2000. It amends the CPP Act and permits provinces and territories to redeem their bonds held by the CPP Investment Fund prior to their maturity. The bonds could then be redeemed at current market value. This amendment to the CPP Act will come into force after receiving approval from the participating provinces.





APPENDIX B

DEPARTMENTAL

Responsibilities



DEPARTMENTAL RESPONSIBILITIES

HUMAN RESOURCES DEVELOPMENT CANADA

HRDC's Income Security Programs Branch administers the Canada Pension Plan (Canada Pension Plan, Subsection 92(1)).

HRDC is responsible for:

- providing information about the Plan;
- · determining benefit entitlement and continuing eligibility for benefits;
- maintaining records and accounts for clients and contributors;
- providing contributors with information on their earnings, contributions and projected benefits;
- managing an appeals process that includes support to the Office of the Commissioner of Review Tribunals and the Pension Appeals Board;
- assigning Social Insurance Numbers to individuals and maintaining a Social Insurance Register of those names and numbers;
- negotiating and administering International Social Security Agreements for clients living outside Canada and for new Canadians;
- · detecting overpayments; and
- · managing accounts receivable.

HRDC Corporate Services provides financial and administrative services, including security, internal audit, human resource services, systems, communications, strategic policy, program evaluation and legal services. These services support operations across the country that deliver services to CPP clients.

CANADA CUSTOMS AND REVENUE AGENCY (CCRA)

CCRA's main activity on behalf of the CPP involves the determination and collection of contributions (Canada Pension Plan, Subsection 92(2)) and related activities.

CCRA is responsible for:

- administering Part I of the CPP legislation, which provides for the collection of contributions from employees, employers and the self-employed. These activities make up about seven percent of the total funds collected by CCRA;
- providing reports on the earnings and contributions of contributors, as well as statistical and other information:
- providing rulings regarding CPP coverage and contribution requirements;
- providing contributor information to the CPP;
- reconciling T-4s and investigating any discrepancies;
- maintaining records for remittances, assessments and deposit funds;
- · managing an appeals process on contribution-related matters; and
- providing system and administrative support.

The cost of these services is determined by a formula involving a periodic, detailed cost survey, which measures direct, indirect, and overhead costs.



PUBLIC WORKS AND GOVERNMENT SERVICES CANADA

The primary role of Public Works and Government Services Canada (PWGSC) in relation to the CPP is to issue benefit payments (*Canada Pension Plan*, Section 93).

PWGSC is responsible for:

- issuing payments on behalf of the CPP;
- developing, maintaining and operating supporting information systems to process information on contributor earnings, benefit payments, and program statistics; and
- providing accommodation and property management services.

DEPARTMENT OF FINANCE

The Department of Finance leads the review of the Plan every three years (*Canada Pension Plan*, Subsection 113.1(1)). The review team is composed of federal and provincial Finance Ministers.

Finance is responsible for:

- leading negotiations with the provinces and all other aspects of the statutory review of the CPP, which can result in changes to the Plan, including contribution rates;
- managing the CPP Investment Fund, which is invested in securities of provincial and territorial governments, provincial Crown agencies, or the Government of Canada, in accordance with the provisions of the CPP.

CPP INVESTMENT BOARD

The CPP Investment Board (CPPIB) manages funds that are not immediately needed to pay benefits (*Canada Pension Plan*, Subsection 111(2), *Canada Pension Plan Investment Board Act*). It is managed independently of the CPP by a small team of senior investment and business executives. The CPPIB Annual Reports are available at http://www.cppib.ca.

OFFICE OF THE SUPERINTENDENT OF FINANCIAL INSTITUTIONS

Actuarial services are provided by the Chief Actuary of the Office of the Superintendent of Financial Institutions (OSFI) (Canada Pension Plan, Section 115).

The Chief Actuary is responsible for:

- preparing reports on the financial status of the CPP, for tabling by the Minister of Finance in Parliament every three years in accordance with the CPP legislation;
- preparing estimates on proposed changes to the Plan's provisions for HRDC, the Department of Finance, and provincial governments; and
- calculating the effects of any new legislation on the CPP, as requested by the Minister of Finance.

AUDITOR GENERAL OF CANADA

The Auditor General is responsible for auditing the annual financial statements of the CPP (Canada Pension Plan, Subsections 112(3) and (4)).

The Canada Pension Plan legislation can be found at: http://canada.justice.gc.ca/STABLE/EN/Laws/Chap/C/C-8.html





APPENDIX C
PENSION AND BENEFIT

NORMATION

PENSION AND BENEFIT INFORMATION

RETIREMENT BENEFITS

Eligibility

- Following the contributor's 60th birthday
- If under 65, the month after the contributor has completely or substantially stopped working

Benefit Rates

- · Based on the individual's contributions to the Plan
- Benefits are actuarially adjusted by 0.5 percent, up to a maximum of 30 percent, for each month
 the contributor is either over or under 65 at the start of the pension (this adjustment is made to
 reflect a longer or shorter period of time that a particular person receives his/her retirement
 pension)

Assignment of Retirement Pensions

In certain circumstances, spouses in a continuing marriage or common-law relationship can receive an equal share of the retirement pension earned by both parties during their life together. Both must be at least 60 and have applied for their retirement pensions.

DISABILITY BENEFITS

Eligibility

Disability benefits

- Beneficiaries must:
 - be disabled according to CPP legislation and
 - be between the ages of 20 and 65 and
 - meet minimum contributory requirements

Children's benefits

- Paid on behalf of the dependent children of the disabled beneficiary if children are:
 - less than 18 or
 - between 18 and 25 and in full-time attendance at school or university

Benefit Rates

Disability benefits

- Consist of a monthly flat-rate amount and an amount based on the contributions of the applicant
- At the age of 65, a disability benefit is automatically converted to a retirement pension

Children's benefits

- Consist of a flat-rate monthly benefit paid on behalf of the dependent children of the disabled beneficiary
- · Children may receive a maximum of two children's benefits



A contributor is considered disabled under the CPP when his/her physical or mental disability is both severe and prolonged. "Severe" means that the person is prevented from working regularly at any job. "Prolonged" means that the condition is long-term or may result in death.

SURVIVOR BENEFITS

Eligibility

Survivor benefits

- The deceased must have contributed a specified minimum amount to the CPP
- The common-law or legal spouse of the deceased contributor may be eligible for a survivor pension
- Eligibility and the rate of payment are determined by
 - contributions made by the contributor during his/her lifetime
 - the age of the surviving spouse
 - whether or not the spouse is disabled
 - whether or not the spouse supports dependent children of the deceased contributor
- · Children of a deceased contributor
 - The natural or adopted children in the care and control of the deceased contributor at the time of death, may be eligible for the children's benefit if they are:
 - less than 18 or
 - between 18 and 25 and in full-time attendance at school or university

Benefit Rates

Survivor

- Only one survivor pension is payable to the surviving spouse
- If survivor is widowed (or predeceased) more than once, the larger of the entitlements is paid
- Survivor and disability benefits or survivor and retirement benefits may be combined to a specified maximum
- Children may receive a maximum of two children's benefits

Children of a deceased contributor

· A flat-rate monthly benefit is paid to the dependent children of the deceased contributor

Death Benefit

- Paid upon death to the deceased contributor's estate or the person responsible for the funeral expenses
- A lump-sum payment equal to six months worth of the deceased contributor's "calculated" retirement pension, up to a maximum of \$2,500 as of December 31, 1997



THE ANNUAL REPORT OF THE CANADA PENSION PLAN — IS IT GIVING YOU WHAT YOU NEED?

The CPP Annual Report is designed to help Canadians understand the role of the Canada Pension Plan and how it is managed. It describes developments during the past fiscal year that affect the Plan and gives an accurate picture of the financial status as of March 31, 2000. And it gives a glimpse of where the Plan is headed and what steps are being taken to make sure it will continue to be there for future generations.

We are interested in hearing what you have to say about our report and how we can make it more useful to readers. Please take the time to fill in the brief questionnaire below, circling your responses. Then fax this sheet back to us at (613)-954-6729.

1. What is your purpose in reading the CPP Annual Report?

- To obtain general information about the CPP
- To do research for studies or private business
- To assist in counselling Canadians on their retirement finances
- To assist clients in a medical context
- To find out about the recent changes to the CPP

2. What sort of CPP information interests you?

- General information about the CPP, such as benefits and eligibility criteria
- Disability benefits information
- CPP financial information, such as investments and expenditures

3.	Wa	s the	information you needed easy to find in the report?
		YES	□ NO
4	XX71	• 1	11 6

4. Which would you prefer to receive?

- An executive summary of the Annual Report
- A full report
- Notification of the report's availability and the web site location

	Write your comments here.)					







annual report of the Canada Pension Plan

2000 - 2001



ANNUAL REPORT OF THE CANADA PENSION PLAN

Fiscal Year 2000-2001

ISPB 202-07-02E

Produced by Human Resources Development Canada in collaboration with: the Department of Finance, Canada Customs and Revenue Agency (CCRA), Public Works and Government Services Canada (PWGSC), and the Office of the Superintendent of Financial Institutions (OSFI).

If you require additional copies of this report, it is available for printing at www.hrdc-drhc.gc.ca/isp/pub/cpppub_e.shtml.

Or you may contact:

Public Enquiries Centre Human Resources Development Canada 140 Promenade du Portage Hull, QC K1A 0J9

Tel.: (819) 994-6313 Fax: (819) 953-7260

Aussi disponible en français sous le titre Rapport annuel du Régime de pensions du Canada 2000–2001.

Feedback

To suggest ways to improve the content or format of this report, please fill in the brief questionnaire at www.hrdc-drhc.gc.ca/isp/pub/cpppub_e.shtml, or fill in the questionnaire at the back of this report and fax it to (613) 957-1602.

For more detailed information about subjects covered in this report or about the Canada Pension Plan in general, please visit the Government of Canada's Income Security Programs Web site at: www.hrdc-drhc.gc.ca/isp.

If you have questions, please call free of charge: 1 800 277-9914 (English)

1 800 277-9915 (French) 1 800 255-4786 (TDD/TTY) Her Excellency
The Governor General of Canada

May it please Your Excellency:

We have the pleasure of submitting the Annual Report of the Canada Pension Plan for the fiscal year 2000–2001.

Respectfully,

John Manley Minister of Finance Jane Stewart Minister of Human Resources Development



TABLE OF CONTENTS

2000-2001 THE YEAR AT A GLANCE	1
THE CANADA PENSION PLAN IN BRIEF	. 2
FINANCING THE CPP A Fair Approach to Funding	
FINANCIAL ACCOUNTABILITY	6
CPP Account	. (1
CPP Investment Fund	. 61
BENEFITS AND EXPENDITURES	. ()
Retirement Pensions	. 9
Disability Benefits	
Death Benefits	
IMPROVED SERVICE DELIVERY	11
Reaching Out to Canadians Delivering Service Processing Benefits	11 11
MANAGING THE CPP	13
Collecting and Recording Contributions Administrative Costs The Appeals Process	13
LOOKING TO THE FUTURE	15
CPP On-Line	
CANADA PENSION PLAN FINANCIAL STATEMENTS	17
FEEDBACK FORM: THE ANNUAL REPORT OF THE CANADA PENSION PLAN — IS IT GIVING YOU WHAT YOU NEED?	51

This report on the Canada Pension Plan (CPP) consolidates input from all departments providing services on behalf of the Plan: Human Resources Development Canada (HRDC), the Department of Finance, Canada Customs and Revenue Agency (CCRA), Public Works and Government Services Canada (PWGSC), and the Office of the Superintendent of Financial Institutions (OSFI).



2000-2001

THE YEAR AT A GLANGE

IN FISCAL 2000-2001:

- The Canada Pension Plan is on a sound financial footing according to the Eighteenth Actuarial Report, which provides an actuarial examination of the Plan as at December 31, 2000. The Report confirms that the 1997 federal—provincial CPP Agreement has put Plan finances back on track.
- More than 4.1 million Canadians received approximately \$19.5 billion in benefits from the Canada Pension Plan (CPP).
- 10.6 million Canadians contributed to the CPP.
- 12.5 million Canadian workers received Statements of Contributions.
- Administrative costs (including capital expenditures) amounted to approximately \$335 million, or 1.7 percent of the \$19.5 billion in benefits paid. This compares favourably with administrative costs for other large pension plans and individual RRSPs.
- 2.7 million Canadians received \$13.5 billion in CPP retirement benefits.

- 869,396 surviving spouses or common-law partners and 87,786 children of deceased contributors received over \$3 billion in benefits.
- Over 280,000 people with disabilities and some 93,000 of their children received almost \$3 billion from the CPP Disability plan.
- On March 31, 2001, total CPP assets (net of benefits and other expenditures) were valued at approximately \$45.7 billion and equalled 2.3 years' benefits. The assets were held in provincial and territorial government bonds, short-term investments, and domestic and foreign equities.
- Bill C-23, An Act to modernize the Statutes of Canada in relation to benefits and obligations, amended the CPP legislation to extend benefits and obligations to same-sex couples on the same basis as common-law opposite-sex couples.
- Changes to the *CPP Regulations* were also implemented (January 1, 2001) to reflect the (scheduled) increase in the annual contribution rate and the statutory increase in maximum pensionable earnings.

THE CANADA PENSION PLAN IN BRIEF

Almost everyone who works in Canada contributes to the Canada Pension Plan (CPP) or to its sister plan, the Quebec Pension Plan (QPP), and will at some time benefit from their provisions.

Established by an act of Parliament in 1965 and implemented in 1966, the CPP is a jointly controlled federal–provincial plan. Quebec manages and administers its own plan, the QPP, and participates in the decision making of the CPP. Benefits from either plan are based on pension credits accumulated under both. The Plans are financed through mandatory contributions from employees, employers and self-employed persons, as well as from investment income. (Information on the QPP is available from the *Régie des rentes du Québec*: www.rrq.gouv.qc.ca/index.htm.)

While it is perhaps best known for its retirement pensions, the CPP also provides children's, survivor, disability and death benefits. CPP Disability is the largest long-term disability plan in Canada. Vocational rehabilitation services offered under the plan help some disability beneficiaries regain their independence by

making it possible for them to go back to earning a regular salary, following a customized return-to-work plan.

Many Canadians live and work in other countries. Others move here after contributing to a pension plan elsewhere. To help protect their pensions, Canada has entered into social security agreements with other nations. These agreements enable Canadians to receive pensions from other countries and to receive CPP payments abroad. They also permit continuity of social security coverage when Canadians are temporarily working outside the country, and eliminate duplicate contribution payments and eligibility requirements.

Benefit calculations are based on how much and for how long a contributor has paid into the CPP. Benefits are not paid automatically — everyone must apply and provide proof of eligibility. However, once eligibility is determined, CPP benefits are paid even if the beneficiary also receives income from other sources. Benefits are adjusted in January of each year to reflect increases in the average cost of living, as measured by the Consumer Price Index.

FINANCING THE CPP

As joint stewards of the CPP, the federal and provincial ministers of Finance review the Plan's financial state every three years and make recommendations as to whether benefits and/or contribution rates should be changed. They base their recommendations on a number of factors, including the results of an examination of the Plan by the Chief Actuary, who is required under the legislation to produce an actuarial report on the CPP every three years (in the year before the legislated ministerial review of the Plan).

Changes to the legislation governing the general level of benefits, the rate of contributions or the investment policy can be made only by the ministers through an act of Parliament. All such changes require the agreement of at least two thirds of the provinces representing at least two thirds of the population, and come into force only after two years' notice, unless all the provinces waive this requirement. Quebec participates in the decision-making formula, even though it has opted out of the CPP and administers its own Plan. The QPP must be implicated in changes to the CPP if the two plans are to remain parallel.

The Finance ministers' last review of the Plan, in December 1999, was based on the results of the Seventeenth Actuarial Report on the CPP, tabled in Parliament in December 1998. The Report confirmed that the 9.9 percent combined employer-employee contribution rate, which will be reached in 2003, is expected to be sufficient to sustain the Plan indefinitely as larger numbers of Canadians reach retirement age.

During the 1999 review, the Finance ministers agreed to leave the schedule of contribution rates unchanged, as the actuarial report prepared for the review confirmed the financial sustainability of the Plan (taking into account the projected aging of Canada's population). The report is available at www.osfi-bsif.gc.ca/eng/office/actuarialreports/index.asp. Further information on the 1999 federal—provincial review and previous reviews of the Plan can be found on the CPP Web site: www.cpp-rpc.gc.ca.

During the course of 2000–2001, the Office of the Chief Actuary began work on the Eighteenth Actuarial Report. A series of seminars with experts was organized to discuss the key assumptions

to be used in the Report. These consultations respond to the recommendations made by the panel of independent actuaries that reviewed the Seventeenth Actuarial Report. A summary of the panel's recommendations can be found at www.osfi-bsif.gc.ca/eng/office/actuarialreports/index.asp.

Since the end of the 2000–2001 fiscal year, the Chief Actuary has completed the *Eighteenth Actuarial Report*. It was tabled in Parliament by the Minister of Finance on December 10, 2001. The Report, which provides an actuarial examination of the Plan as at December 31, 2000, confirms that the 9.9 percent combined employer-employee contribution rate scheduled for 2003 and thereafter is expected to be sufficient to sustain the Plan indefinitely. The *Eighteenth Actuarial Report* will be reviewed by la panel of independent actuaries and will serve

as the basis for the financial review of the Plan by the Finance ministers in 2002. The *Eighteenth Actuarial Report* can be found at www.osfi-bsif. gc.ca/eng/office/actuarialreports/index.asp.

A FAIR APPROACH TO FUNDING

When it was introduced, the CPP was designed as a pay-as-you-go plan, with a small reserve. This meant that the benefits for one generation would be paid largely from the contributions of later generations. This approach made sense under the economic, financial and demographic circumstances of the time. The period was characterized by a rapid growth in wages and labour force participation and low rates of return on investments.

The federal and provincial governments decided to keep contributions at a reasonable level while beginning to pay full retirement benefits as early as the mid-1970s. This was important — many of the seniors who received benefits at that time had been unable to accumulate sufficient retirement savings because of the Great Depression and two world wars.

However, demographic and economic developments and changes to benefits in the 30 years that followed resulted in significantly higher costs. When the federal–provincial Finance ministers began their statutory review of the finances of the CPP in 1996, contribution rates, already legislated to rise to 10.1 percent by 2016, were expected to have to rise again — to 14.2 percent by 2030 — to continue to finance the program on a pay-as-you-go basis.

This would have meant imposing a high financial burden on Canadians in the workforce during those years, which was deemed unacceptable by the federal and provincial governments. Therefore, in 1997, they agreed, instead, to change the funding approach of the Plan to a hybrid of pay-as-you-go (in which benefits paid to each generation of retirees are financed from

the contributions of the following generation of contributors) and full funding (in which each generation pays for its own benefits).

Steady-state financing

Under steady-state financing, the contribution rate is scheduled to increase incrementally (from 5.6 percent in 1996) to 9.9 percent in 2003 and to remain at this level thereafter. Steady-state financing requires that contribution rates be set no lower than the lowest rate expected to ensure the long-term financial stability of the Plan without recourse to further rate increases. (The combined employer-employee contribution rate in 2001 was 8.6 percent, up from 7.8 percent in 2000.)

Steady-state financing will generate a level of contributions between 2001 and 2020 that exceeds the benefits paid out every year during this period. Funds not immediately required to pay benefits will be transferred to the CPP Investment Board for investment in financial markets. The Eighteenth Actuarial Report calculates the value of accrued pension benefits at \$487 billion and Plan assets (valued at cost) at \$43.7 billion as at December 31, 2000. However, the future financial health of a plan funded along the lines of the Canada Pension Plan is better measured by the evolution of the projected growth rate of assets and liabilities. The Eighteenth Actuarial Report projects total Plan assets are expected to increase from the equivalent of about two to about five years' worth of benefits over the next two decades under the current schedule of contribution rates.

After 2020, as more and more baby boomers retire, and benefits paid begin to exceed contributions, investment revenues from the CPP's accumulated assets will provide the funds necessary to make up the difference. However, contributions to the CPP will remain the main source of funding for benefits.

Plan assets are projected to continue to grow after 2020, at a somewhat slower pace than before 2020 but at least as rapidly as Plan liabilities. As a result, Plan assets are expected to be equal to an increasing number of years of benefits into the foreseeable future. As a result, the *Eighteenth Actuarial Report* concludes that the pool of assets the Plan is expected to accumulate should make it possible to absorb any unforeseen economic or demographic fluctuations, which would otherwise have to be reflected in contribution rates.

A partially funded CPP is not only a good balance between the two approaches, but also

complements the other components of Canada's retirement income system:

- the Old Age Security program, funded by general Government revenues, and
- private savings, including tax-assisted, fully funded employer-sponsored pension plans and registered retirement savings plans (RRSPs).

As a whole, because it has a diversified funding approach, Canada's retirement income system is less vulnerable to changes in economic and demographic conditions than are systems in countries that use a single funding approach.



FINANCIAL ACCOUNTAbility

Since 1999–2000, the CPP has used the accrual basis of accounting for revenues and expenses. This method gives administrators a more detailed financial picture and allows more accurate matching of revenue and expenditures to the year in which they occur.

As of March 31, 2001, the total net assets of the CPP were valued at approximately \$45.7 billion (equal to 2.3 years' worth of benefits). Net Plan assets are contributions and investment income accumulated since the Plan's inception in 1966, less benefits and expenditures over the same period. Plan assets are expected to increase appreciably over the next 20 years.

CPP ACCOUNT

A separate account, the CPP Account, has been established for the CPP in the accounts of Canada to record the financial elements of the Plan: contributions, interest, pensions and other benefits, and administrative expenditures. The CPP Account also records the amounts transferred to or received from both the CPP Investment Fund and the CPP Investment Board. Spending authority is limited to the Plan's net assets.

The CPP Account consists of an operating balance and a number of short-term investments. The operating balance is maintained at a level designed to cover three months' worth of forecast benefit payments and administrative charges.

During 2000–2001, the operating balance earned an average interest rate of 5.27 percent, or \$362 million. Short-term investments had an average interest rate of 5.63 percent and earned \$12 million.

CPP INVESTMENT FUND

Before the 1998 changes to the CPP's investment policy, funds not immediately needed to pay benefits and maintain liquidity in the CPP Account were invested only in long-term bonds of the provincial and territorial governments, provincial Crown agencies, and the Government of Canada. The CPP Investment Fund will retain investments in these securities until they have matured and/or are redeemed. The balance in the Investment Fund on March 31, 2001, was \$29.6 billion, down slightly from \$30.3 billion in March 2000 because of non-renewal of maturing bonds. All securities held were invested for 20-year terms.

Since 1998, funds coming into the Plan that are not immediately needed to pay benefits and Investment Fund securities that are redeemed have been transferred to the CPP Investment Board to be invested in capital markets. As a transitional measure, all provinces and territories can roll over their CPP borrowings at maturity for one additional 20-year term if they wish, at the same rate of interest as they would pay on other market borrowings.

During the 1999 federal—provincial triennial review, a decision was made to amend the CPP legislation to give the provinces and territories the option of prepaying some or all of their CPP borrowings at market rates of interest, at no cost to the Plan. This option, which was implemented in January 2001, can assist provinces that are paying down their debt.

Interest

In 2000–2001, the Investment Fund earned about \$3.3 billion in interest, which was deposited in the CPP Account. This compares with \$3.5 billion earned in the previous 12 months. (The Canada Pension Plan Financial Statements summarize the status of the Investment Fund as of March 31, 2001.)

Maturing securities are redeemed as they come due, with the principal and any outstanding interest reimbursed by the provinces and territories. In 2000–2001, \$2 billion worth of bonds matured, and of those, \$1.3 billion worth were renewed for additional 20-year terms.

Rates of return

The Investment Fund continues to benefit from the high rates of return for securities that were bought in the early 1980s, when interest rates were relatively high. Since these securities are 20-year government bonds, bearing a weighted average annual nominal return of 10.97 percent (or 7.97 percent when inflation is taken into account), the Fund's average nominal rate of return will remain above nine percent for the next several years. For this reason, the short-term rate of return, based on these investments, will exceed the Fund's expected long-term rate of return of 6.5 percent, or 3.5 percent after inflation.

This long-term rate of return is based on the fact that investments made today have lower returns than did past investments. However, since equities, while more volatile, have historically provided higher returns than bonds in the long term, the new strategy is expected to produce better long-term returns than the previous strategy would have, since it permitted investments in government bonds only and thus prevented diversification of investment.

CPP INVESTMENT BOARD

The CPP Investment Board (CPPIB) was created by an act of Parliament in December 1997 to invest funds not required by the Canada Pension Plan to pay current benefits.

On March 31, 2001, the market value of assets invested by the CPPIB in Canadian and foreign equities totalled \$7.2 billion, which represented about 17 percent of the Plan's assets. The CPPIB's annual report, as well as its quarterly financial statements, can be found at www.cppib.ca.

The Investment Board operates at arm's length from government. Its legislated mandate is to manage funds transferred from the CPP "in the best interests of the contributors and beneficiaries of the plan." The Board is to "invest its assets with a view to achieving a maximum rate of return, without undue risk of loss." The Board must also consider the factors that affect the Plan's funding and its ability to meet its financial obligations.

In developing its asset mix policy, the CPP Investment Board considers the Plan's bond portfolio and operating reserve, which are administered by the Department of Finance. As a result, it currently invests solely in equities to offset the dominance of these fixed-income securities.

Further information on the CPPIB's mandate, structure and investment policy can be found on its Web site.

Current investments

Seventy percent of the CPPIB's \$7.2 billion assets was invested in Canadian equity markets and 30 percent in equity markets in the United States, Europe and Asia.

Regulations governing the CPPIB previously required that half the capital allocated to Canadian equities be invested passively in funds that replicate an established stock index - the Board has selected a fund that replicates the TSE 300 Composite Index. The remaining 50 percent of Canadian equity can be invested actively and was placed in a fund based on the TSE 300 Index, less one security that exceeds seven percent of the Index. Outside Canada, the Board can invest actively or passively; it has invested passively - in a fund that mirrors the Standard & Poor's 500 Index of large companies in the United States and a second fund that replicates the MSCI EAFE Index of about 900 companies in Europe, Australia, New Zealand and the Far East.

Stock markets around the world corrected mid-way through fiscal year 2000–2001, after the longest and strongest rise in history.

Between September 2000 and March 2001, they experienced the worst six-month declines since 1974, with the TSE 300 Index retreating by 26.2 percent and foreign equities falling by 13.5 percent. As a result, the CPP Investment Board ended the year with a negative return of 9.4 percent, or an \$852 million net loss (compared with a decline of 17.8 percent for the overall markets in which the Board invested). The better-than-market performance reflected the decision to actively manage half the

Canadian portfolio by excluding a dominant stock that subsequently declined further in value than the TSE 300 Index.

The regulations requiring the CPPIB to invest half the capital allocated to domestic equities passively were amended in November 2001. As of this time, the CPPIB can actively invest all of the funds that it allocates to domestic equities.

Investing for our future

The CPP Investment Board has expanded into private equities through a fund that provides venture capital. It expects to commit as much as \$1.8 billion to private market investments over the next five years through limited partnerships or pooled funds managed by investment firms in Canada and around the world.

In compliance with its statutory requirement to hold a public meeting in each participating province at least once every two years, the Board held public meetings across Canada in January 2001. The next series of public meetings is tentatively scheduled for the fall of 2002.



BENEfitS AND EXPENDITURES

The number of people receiving CPP benefits has increased steadily over the past decade, as have expenditures to pay for the increased claims. Table 1 shows the yearly increases since 1997–1998.

RETIREMENT PENSIONS

Retirement pensions represent 65 percent of the total number of CPP benefits paid and 69 percent of the total benefit dollars paid out by the CPP in 2000–2001. The amount of each contributor's pension depends on how much and how long he/she has contributed and at what age he/she begins to draw the benefits. In March 2001, the maximum retirement pension was \$775; the average amount paid was \$427.73.

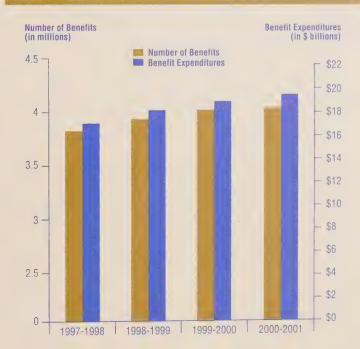
DISABILITY BENEFITS

Disability benefits, paid to eligible contributors and their children, represent nine percent of the total number of CPP benefits paid and 14 percent of the total benefit dollars paid out by the CPP in 2000–2001. In 2001, the maximum monthly disability benefit was \$935.12; the average amount paid was \$700.17. The children's benefit was a flat rate of \$178.42.

SURVIVOR BENEFITS

Survivor benefits, paid to the surviving spouse of the contributor and his/her dependent children, represent 23 percent of the total number of CPP benefits paid and 15 percent of the total

TABLE 1 – BENEFITS AND EXPENDITURES BY FISCAL YEAR



benefit dollars paid out by the CPP in 2000–2001. The amount of the monthly survivor benefit varies depending on a number of factors, including the age of the spouse at death and whether the beneficiary receives other benefits as well.

DEATH BENEFITS

Death benefits represent two percent of the total number of CPP benefits paid and one percent of the total benefit dollars paid out by the CPP in 2000–2001. The death benefit is a one-time payment. The maximum payable is \$2,500; the average payment in March 2001 was \$2,187.12.

IMPROVED SERVICE DELIVERY

REACHING OUT TO CANADIANS

During 2000–2001, HRDC sustained the emphasis on community outreach and communication to help Canadians better understand public pensions and the retirement income system, and to encourage them to actively plan and prepare for their own retirement. Information on the CPP is available in print, on the Internet, in person in local offices, by phone, and at electronic kiosks in government offices and public buildings.

Personalized contact with clients continued to receive high priority; in 2000–2001 HRDC issued personal CPP Statements of Contributions to more than 12.5 million contributors between the ages of 18 and 70. The statements were accompanied by information on the retirement income system in Canada.

DELIVERING SERVICE

In 2000–2001, HRDC focused on maintaining the CPP systems and continuing to modernize CPP program delivery in conjunction with information technology renewal.

Major systems-related initiatives gave CPP staff both on-line access to contributors' record-of-earnings information and the ability to correct errors on-line. The modified computer systems now recognize same-sex relationships and automate the extension of CPP benefits and obligations to individuals in common-law relationships.

New data storage and retrieval features have been added to improve support to external partners, such as provincial social services

departments and workers' compensation boards. These changes have improved client service and the speed with which benefits can be adjudicated and inquiries answered.

Work also continues on the rules-based system — a knowledge base to guide the decision-making process and ensure that legislation, operational policy and procedures are correctly and consistently applied.

PROCESSING BENEFITS

CPP services are offered in person, by telephone and by mail. In 2000–2001, staff processed disability applications (which are complex and require medical information) within an average 68 days. Other types of applications were processed within 31 days (see Table 2).

Better communication with clients and their physicians helped staff make more informed decisions and helped applicants better understand the decisions made. As a result, more than 90 percent of the applications for disability benefits in 2000–2001 were finalized during the initial phases and the number of requests for reconsideration declined by nearly 3,000.

HRDC call centres received some 3.4 million calls about public pensions in 2000–2001. Positive responses to initiatives such as the mailout of personalized statements to CPP contributors and inquiries received during traditionally busy Guaranteed Income Supplement and T4 periods contributed to the increase.

TABLE 2 – SPEED OF PROCESSING NEW APPLICATIONS

National speed-of-service measures	Objective	2000–2001 National Average
Number of working days to process initial CPP applications		
(excluding disability applications)	28*	31
Number of working days to process initial CPP disability applications	62	68

^{*}Number of days between the date the application is received and the date of the decision.

Note: The definition of the process now includes computer processing for payment, and is based on 100 percent automated census data and client consultations. The data represent an average of the entire dataset specified.

TABLE 3 – TELEPHONE SERVICE STATISTICS*

	2000-2001
Access I: Percentage of clients accessing the HRDC telephone system on the first	
attempt**	98.0%
Access II: Percentage of clients served by a service agent within 180 seconds of	
placing a call**	80.9%
Average waiting time to speak with a service agent	78 sec.
Average time clients spend talking to a service agent	237 sec.

^{*}Table includes CPP and Old Age Security totals. Speed of service does not vary between programs.

Managing longer wait-times related to increased call volumes was a challenge confronted throughout the year. This was addressed by directing more staff resources to telecentres and by installing updated equipment and new software designed specifically to manage high volumes and peak periods. CPP is also piloting the use of the Internet to complement traditional telephone services and address the growing need for capacity.

The role of CPP staff who advise and assist the public by telephone continues to become more complex. Direct support through updated on-line reference materials and new national training packages is being implemented to provide comprehensive and consistent training to staff across Canada.

[&]quot;Objective for Access I and II is 95 percent.

MANAGING THE CPP

COLLECTING AND RECORDING CONTRIBUTIONS

Contributions to the CPP are paid on the portion of a person's earnings that falls between a minimum of \$3,500 that remains constant and a maximum amount that is adjusted annually to reflect growth in the average Canadian industrial wage. The maximum amount of pensionable earnings as of January 1, 2001, was \$38,300 (up from \$37,600 in 2000). Contributions stop once a contributor reaches the age of 70 or begins to receive a CPP retirement pension or disability benefit.

The contribution rates for the year 2001 are 4.3 percent for employees and 4.3 percent for employers. Persons who are self-employed pay both portions, for a total of 8.6 percent. The combined employer-employee rate for 2002 will be 9.4 percent, with self-employed people paying both the employer and the employee share. Approximately 94 percent of contributions come from employers and employees and the remaining six percent from self-employed Canadians.

All CPP contributions are remitted to the Canada Customs and Revenue Agency (CCRA). In 2000–2001, contributions amounted to \$21.162 billion.

CCRA also assesses and verifies earnings and contributions, advises employers and employees of their rights and responsibilities, conducts audits, and reconciles reports and T4 slips. To verify that contribution requirements are being met, CCRA applies a compliance and enforcement process that can vary from a computerized data match to an on-site audit.

There are approximately 1.4 million existing employer accounts. During 2000–2001, CCRA conducted 56,813 audits, concentrating on files with irregularities.

ADMINISTRATIVE COSTS

In 2000–2001, it cost approximately \$335 million to administer the CPP, with HRDC accounting for the largest portion — \$243 million (see Table 4). CCRA required approximately \$78 million and Public Works and Government Services Canada (PWGSC), \$13 million, for services to the CPP. The Office of the Superintendent of Financial Institutions (OSFI), where the Office of the Chief Actuary is housed, and the Department of Finance incurred costs of \$1.1 million and about \$400,000, respectively.

Since the administrative costs of the CPPIB are drawn from CPPIB investment income, they are reported in that organization's annual report. This is consistent with the arm's length administration of the Board. In 2000–2001, the CPPIB reported \$2.3 million in operating expenses.

CPP administrative expenses in 2000–2001 represent 1.7 percent of the \$19.5 billion in benefits paid. This ratio compares very favourably with that of other pension plans. Administrative costs for large pension plans in the private sector, for example, average five percent of expenditures.

CPP administrative costs also compare favourably with those of RRSPs. Table 4 presents the CPP's administrative expenditures for the last three years.



TABLE 4 - CPP ADMINISTRATIVE COSTS 1998-1999 TO 2000-2001

	Expenditures (in \$ thousands)		
Department/Agency	1998–1999	1999-2000	2000-2001
Human Resources Development Canada	\$205,929	\$241,328	\$242,865
Canada Customs and Revenue Agency	75,753	58,193*	77,746
Public Works and Government Services Canada	14,352	14,094	12,810
Office of the Superintendent of Financial Institutions	1,022	1,181	1,102
CPP Investment Board	6,000	N/A	N/A
Finance	530	346	395
Total	\$303,586	\$315,142	\$334,918

This amount has been reduced by \$13 million as a result of an audit of administrative costs covering the fiscal years 1994–1995 to 1997–1998.

THE APPEALS PROCESS

Individuals have three opportunities to appeal the decision made on an application for CPP benefits. Of all appeals received, almost 95 percent concern an application for disability benefits.

The first level of appeal involves a request to the Minister of HRDC for a reconsideration (or administrative review) of a decision concerning a benefit or a division of pension credits. The number of requests for reconsideration in disability cases declined from 15,354 in 1999–2000 to 12,649 in 2000–2001. During that same period (between April 2000 and March 2001), the number of benefits awarded at appeal increased from 23 to 25 percent.

A person who is not satisfied with the decision made at the departmental reconsideration level can appeal to a Review Tribunal. A Review Tribunal is an independent, impartial body made up of three people chosen by the Commissioner of Review Tribunals from a panel of 300 to 325 part-time members appointed by order-in-council.

The final opportunity for appeal is the Pension Appeals Board (PAB) — a tribunal operating at arm's length from HRDC. Members are federal or provincial superior court judges or former judges appointed by the Governor in Council. Hearings are not automatic at this level; claimants or the Minister of HRDC must request "leave to appeal". Ninety-seven percent of the 2,773 applications for leave to appeal received in 2000–2001 concern CPP disability benefits.

Staff worked closely with the Office of the Commissioner of Review Tribunals (OCRT) and the Pension Appeals Board to improve co-ordination among their offices and to update management practices at the appeals level. As a result, the three organizations have all improved and augmented client communications. The appointment of a significant number of additional members to the OCRT and the PAB also made it possible to process appeals more quickly. Initiatives are in place to increase the volume of cases heard each year, to reduce the waiting period.

LOOKING TO THE FUTURE

In 2000–2001, the CPP made benefit payments to approximately 4.1 million Canadians. Some 300,000 new applications are received each year for various benefits, and a significant increase is expected as our population ages. Current figures predict that the number of people receiving retirement pensions will rise some 40 percent over the next 15 years.

The scheduled increases in the CPP contribution rate and the new investment policies of recent years will allow the CPP to meet the growing financial demands. The additional challenge will be to enhance service delivery to ensure that Canadians can continue to receive timely, accurate and client-focused service.

Two long-term initiatives aimed at meeting that challenge are now underway.

CPP ON-LINE

HRDC has made it a priority to update the support systems that help deliver benefits. Evolving over the next five years, the systems will support better decision making by improving the information available to management, clients and staff through a faster and more up-to-date technological infrastructure and revitalized systems. The improvements will help to further reduce the paper burden and the complexity of the application process.

Putting the CPP on-line is a multi-year project designed to provide Canadians with on-line access to information, data, and services essential to income stability and retirement planning. A comprehensive review of legislation, regulations, policies, and procedures will lay the groundwork for an innovative, leading-edge approach to the on-line delivery of key transactions.

CPP On-Line will also support the objectives of the federal Government On-Line (GOL) initiative (the commitment to provide Canadians with full electronic access to key federal information and services by 2005). CPP On-Line initiatives include the implementation of a Web-based system that permits a wider range of inquiries and client transactions online. Six client groups — seniors, people with disabilities, survivors, migrants, low-income pensioners, and contributors — will be the focal point for modernizing CPP service delivery over the coming decade. In this context, the importance of strengthening our technological framework is clear, especially since the fastest-growing group of Internet users is the senior population.

REACHING ALL CANADIANS

Currently, HRDC's programs help millions of people in Canada every day. The Department's primary objective is to ensure that *everyone* receives the benefits to which they are entitled under its programs.

A multi-year strategy has been launched to ensure that all Canadians are aware of the benefits available and to help them more easily obtain those to which they are entitled.

Working in partnership with other departments and with private-sector organizations, the Department is extending its message as far as possible, especially to those who are difficult to contact through traditional methods. Staff will continue to work extensively with the various media — mainstream, ethnic and specialty. Ads, articles, radio and cable TV productions will all be used and, wherever possible, potential clients will be contacted directly through mailings, outreach initiatives and other means.







CANADA PENSION PLAN

FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2001



MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The financial statements of the Canada Pension Plan have been prepared by management of Human Resources Development Canada in accordance with the accounting policies set out in Note 2 to the financial statements.

Management is responsible for the integrity and objectivity of the data in these financial statements, including the amounts which must, of necessity, be based on best estimates and judgements. The financial information presented throughout the Annual Report is consistent with the financial statements.

In support of its responsibility, management has developed and maintains books of account, financial and management controls, information systems and management practices. These are designed to provide reasonable assurance as to the reliability of the financial information, and to ensure that the transactions are in accordance with the Canada Pension Plan and regulations, as well as the Financial Administration Act and regulations.

The Auditor General of Canada, the external auditor of the Canada Pension Plan, has conducted an independent audit of the financial statements in accordance with Canadian generally accepted auditing standards and has reported to the Minister of Human Resources Development.

Alan Winberg
Assistant Deputy Minister
Financial and Administrative Services

Claire M. Morris Deputy Minister

July 18, 2001







AUDITOR GENERAL OF CANADA

VÉRIFICATEUR GÉNÉRAL DU CANADA

AUDITOR'S REPORT

To the Minister of Human Resources Development

I have audited the statement of net assets of the Canada Pension Plan as at March 31, 2001 and the statement of changes in net assets for the year then ended. These financial statements are the responsibility of the management of Human Resources Development Canada. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Canada Pension Plan as at March 31, 2001 and the changes in its net assets for the year then ended in accordance with the significant accounting policies set out in Note 2 to the financial statements.

Sheila Faser

Sheila Fraser, FCA Auditor General of Canada

Ottawa, Canada July 18, 2001



STATEMENT OF NET ASSETS AS AT

MARCH 31 (IN MILLIONS OF DOLLARS)

Assets Investments CPP Investment Fund – at cost (Note 3) Provincial and Territorial bonds Canada bonds CPP Investment Board – at fair value (Note 4) Canadian equities Non-Canadian equities Cash Deposit with Receiver General for Canada Receivables Contributions Accrued interest	26,188 3,403 5,024 2,131	26,873 3,426
CPP Investment Fund – at cost (Note 3) Provincial and Territorial bonds Canada bonds CPP Investment Board – at fair value (Note 4) Canadian equities Non-Canadian equities Cash Deposit with Receiver General for Canada Receivables Contributions Accrued interest	3,403 5,024	
Provincial and Territorial bonds Canada bonds CPP Investment Board – at fair value (Note 4) Canadian equities Non-Canadian equities Cash Deposit with Receiver General for Canada Receivables Contributions Accrued interest	3,403 5,024	
Canada bonds CPP Investment Board — at fair value (Note 4) Canadian equities Non-Canadian equities Cash Deposit with Receiver General for Canada Receivables Contributions Accrued interest	3,403 5,024	
CPP Investment Board — at fair value (Note 4) Canadian equities Non-Canadian equities Cash Deposit with Receiver General for Canada Receivables Contributions Accrued interest	5,024	3,426
Canadian equities Non-Canadian equities Cash Deposit with Receiver General for Canada Receivables Contributions Accrued interest		
Non-Canadian equities Cash Deposit with Receiver General for Canada Receivables Contributions Accrued interest		
Cash Deposit with Receiver General for Canada Receivables Contributions Accrued interest	2 131	1,954
Deposit with Receiver General for Canada Receivables Contributions Accrued interest	-, 101	439
Receivables Contributions Accrued interest		
Contributions Accrued interest	6,420	6,261
Accrued interest		
	1,415	1,170
Dásimo dos ventos du Quábas	1,139	1,172
Régime des rentes du Québec	24	6
Beneficiaries (Note 5)	46	46
	45,790	41,347
Liabilities		
Accounts payable	51	32
Accrued pensions and benefits	50	53
CPP Investment Board's liabilities, net of its other assets	1	1
	102	86
Net Assets	45,688	41,261
Net Assets, represented by:		
Canada Pension Plan Investment Fund	29,591	30,299
Transfers to Canada Pension Plan Investment Board	7,546	1,933
Accumulated net income / (loss) from Investment Board's operations	(391)	460
Canada Pension Plan Account (Note 6)	6.420	6,261
Receivables, net of liabilities	0,420	
Net Assets	2,522	2,308

The accompanying notes are an integral part of these financial statements.

Approved by Human Resources Development Canada

Alan Winberg
Assistant Deputy Minister
Financial and Administrative Services

Claire M. Morris Deputy Minister



STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED MARCH 31

(IN MILLIONS OF DOLLARS)

	2001	2000
Net assets, beginning of year	41,261	39,100
Increase in assets		
Contributions (Note 7)	21,407	17,037
Investment Income (Note 8)	2,849	4,238
	24,256	21,275
Decrease in assets		
Pensions and Benefits (Note 9)		
Retirement	13,527	12,919
Survivors	2,802	2,669
Disability	2,546	2,559
Disabled Contributor's Child	233	245
Death	213	222
Orphan	198	202
Less: Net overpayments	(25)	(17)
	19,494	18,799
Administration costs (Note 10)	335	315
	19,829	19,114
Increase in net assets	4,427	2,161
Net assets, end of year	45,688	41.261

The accompanying notes are an integral part of these financial statements.



NOTES TO FINANCIAL STATEMENTS MARCH 31, 2001

1. DESCRIPTION OF THE CANADA PENSION PLAN

a) Description of the CPP

The Canada Pension Plan (CPP) is a federal/provincial plan established by an Act of Parliament in 1965.

The CPP began operations in 1966. It is a compulsory and contributory social insurance program operating in all parts of Canada, except Quebec, which operates the Régime des rentes du Québec, a comparable program. The Plan's objective is to provide a measure of protection to workers and their families against the loss of earnings due to retirement, disability or death.

The Minister of Human Resources Development is responsible for the administration of the Canada Pension Plan (the CPP Act); the Minister of National Revenue is responsible for collecting contributions. The Minister of Finance and his provincial counterparts are responsible for setting CPP contribution rates, pension and benefit levels and funding policy.

The financial activities of the Canada Pension Plan are recorded in the CPP Account (Note 6). The CPP Investment Fund (Note 3) holds the bond portfolio of the Plan, and the Plan's investments in capital markets are managed by the CPP Investment Board (Note 4). The financial transactions affecting the Account and the Investment Fund are governed by the CPP Act and regulations. The Investment Board's transactions are governed by the Canada Pension Plan Investment Board Act and the accompanying regulations.

As stated in the CPP Act, changes to this Act require the approval of at least two-thirds of the provinces having, in the aggregate, not less than two-thirds of the population of all included provinces.

b) Financing

CPP is financed by contributions and investment returns.

Employers and employees pay contributions equally to CPP. Self-employed workers pay the full amount.

CPP was designed initially to be financed on a pay-as-you-go basis, which means that the Plan would operate on a current basis with pensions and benefits being paid out of current contributions. With changes made to the Act in 1997, CPP is now intended to be funded on a "steady-state" basis – that is, combined contributions are planned to increase to 9.9% of pensionable earnings by 2003 and are then expected to level off.

From 1966 to 1986, the combined employer-employee contribution rate remained at 3.6% of pensionable earnings. In 1987, it was raised to 3.8% and increased yearly by 0.2% to reach 5.6% in 1996. In 1997, 1998, 1999 and 2000, the combined contribution rate was increased by 0.4%, 0.4%, 0.6% and 0.8% respectively. In 2001, it was increased by 0.8% to reach 8.6%. The maximum combined contribution for 2001 was \$2,993 (2000 – \$2,660).

The CPP Act provides that an actuarial report shall be prepared every three years for purposes of the review of the financial state of the CPP by the Minister of Finance and his provincial counterparts. The Seventeenth Actuarial Report of the Chief Actuary of the Office of the Superintendent of Financial Institutions was tabled in the House of Commons in December 1998. Federal and provincial ministers of Finance concluded at the end of the 1999 Triennial Review process that the CPP's financial health is sound and that the 9.9% combined employee-employer contribution rate which will be reached in 2003 is expected to be sufficient to sustain the Plan in the face of an aging population.

c) Net assets of the Plan

The net assets of the Plan are composed of the deposit with the Receiver General for Canada, short term and long term investments in bonds and investments in capital markets managed by the CPP Investment Board. The net assets represent funds accumulated for the payment of pensions, benefits and administration costs. This amount does not cover the actuarial present value of accrued pensions and benefits. As at March 31, 2001, the net assets of the Plan are of \$45.7 billion (2000 – \$41.3 billion). This amount represents 2.3 times the total of pensions and benefits for the year 2000-2001.

d) Pensions and benefits

Retirement pensions – A retirement pension is payable to each contributor at age 60 or older, according to the provisions of the Act. The monthly amount is equal to 25% of the contributor's average monthly pensionable earnings during the pensionable period. The amount may be reduced or increased depending upon whether the contributor applies for a retirement pension before or after age 65. This adjustment cannot exceed 30%. The maximum monthly pension payable at age 65 in 2001 is \$775.00 (2000 – \$762.92).

Disability benefits – A disability benefit is payable to a contributor who is disabled, according to the provisions of the Act. The amount of the disability benefit to be paid includes a flat-rate portion and an amount equal to 75% of the earned retirement pension. The maximum monthly disability benefit in 2001 is \$935.12 (2000 – \$917.43).

Survivor's benefits – A survivor's benefit is payable to the spouse or common-law partner (the beneficiary) of a deceased contributor, according to the provisions of the Act. For a beneficiary under the age of 65, the benefit consists of a flat-rate portion and an amount equal to 37.5% of the deceased contributor's earned retirement pension. A beneficiary between the ages of 35 and 45 who is not disabled or who has no dependent children receives reduced benefits. For beneficiaries aged 65 and over, the benefit is equal to 60% of the retirement pension granted to the deceased contributor. The maximum monthly benefit payable to a beneficiary in 2001 is \$465.00 (2000 – \$457.75).

Disabled contributor's child and orphan benefits – According to the provisions of the Act, each child of a contributor who is receiving disability benefits or who died is entitled to a benefit as long as the child is under the age of 18, or is between the ages of 18 and 25 and attending school full-time. The flat-rate monthly benefit in 2001 is \$178.42 (2000 – \$174.07).

Death benefits – According to the provisions of the Act, a death benefit is a one-time payment to, or on behalf of, the estate of a contributor. The benefit amounts either to 10% of the maximum pensionable earning in the year of death or six times the monthly retirement pension granted to the deceased contributor, whichever is less. The maximum death benefit in 2001 is \$2,500 (2000 – \$2,500).

Pensions and benefits indexation – As required by the Act, pensions and benefits are indexed annually based on the Consumer Price Index for Canada. The rate of indexation for 2001 is 2.5% (2000 – 1.6%).

2. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of presentation

These financial statements present the net assets and the changes in net assets of the Canada Pension Plan. They do not provide information on the actuarial estimates required to meet future obligations of the CPP. The CPP Act does not require that the pensions and benefits be pre-funded.

The financial statements are prepared in accordance with relevant acts and regulations. They have been prepared on the accrual basis of accounting and they include amounts which must, of necessity, be based on management's best estimates and judgements.

The CPP, which is under joint control of the Government of Canada and participating provinces, is not considered to be part of the reporting entity of the Government of Canada. Accordingly, its financial activities are not consolidated with those of the Government.

b) Valuation of investments

Bonds are shown at cost, which is equal to the face value of the bonds at the time of purchase. This accounting policy has been selected based on the non-marketable, non-transferable nature of the bonds and on consideration of the likelihood of redemption of the provincial and territorial bonds in the foreseeable future. The bonds issued by the provincial and territorial governments are redeemable prior to maturity at market value equivalent at the option of these governments. In the event that the federal Minister of Finance considers the redemption necessary to pay pensions, benefits and administration costs, the bonds would then be redeemed at face value.

CPP Investment Board's investments are stated at fair value. Fair value is the amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. Market prices for securities and unit values for pooled and mutual funds are used to represent fair value for the investments. Unit values reflect the quoted market prices of the underlying securities.

c) Contributions to the Plan include CPP contributions collected by the Canada Customs and Revenue Agency (CCRA) for the year, including receivables at year-end. Funds transferred by the CCRA are estimated and are subject to review and adjustments. Adjustments, if any, are recorded as contribution revenue in the year they are known.

d) Investment income recognition

Interest income is recorded in the year in which it is earned.

CPP Investment Board's net income from operations represents the Investment Board's investment income, less investment and administrative expenses. Investment income is recorded on the accrual basis and represents realized gains and losses on disposal or transfer of investments, unrealized gains and losses on investments held at the end of the year, dividend income, interest income, and distributions from mutual and pooled funds. Realized gains and losses on investments sold during the year represent the difference between sale proceeds and cost, less related costs of disposition. Unrealized gains and losses represent the change in the difference between fair value and cost of investments at the beginning and end of each year.

- e) Pensions and benefits are recorded when payable.
- f) Net overpayments are composed of overpayments of pensions and benefits that were established during the year less remissions of debts granted.
- g) Administration costs are recorded in the year to which they relate.

3. INVESTMENTS HELD BY THE CPP INVESTMENT TUND

The Canada Pension Plan Investment Fund was established in the accounts of Canada by the CPP Act to record the Plan's investments in bonds of the provinces, territories and Canada. The CPP Investment Fund's bond portfolio is administered by the federal Department of Finance.

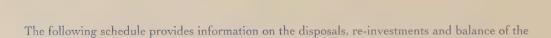
Until the end of 1997, the investments in provincial, territorial and federal government bonds were made with the cash on hand in excess of the Plan's forecast three-month operating requirement. These bonds were not marketable and had a 20-year term (or less) as fixed by the Minister of Finance on the recommendation of the Chief Actuary of the Office of the Superintendent of Financial Institutions. The interest rate on the bonds was determined by the Minister of Finance based on the average yield to maturity of all outstanding Government of Canada obligations with terms of 20 years or more. When these bonds matured, funds not required for payment of pensions and benefits were re-invested in new bonds.

Beginning in 1998, a maturing provincial or territorial bond may be re-invested in a new bond only once for a term of 20 years, if both the issuer asks to do so and the operating balance is sufficient to pay current pensions and benefits. Excess funds not re-invested are transferred to the CPP Investment Board.

The re-invested bonds remain not marketable and bear interest at a rate fixed by the Minister of Finance. The interest rate is substantially the same rate that the province would pay if it were to borrow the same amount for the same term through the issuance of a bond on the public capital markets.

All disposals of bonds are made, at maturity date, at face value. Interest earned on the investments is paid semi-annually to the CPP Account. The bonds are redeemable in whole or in part before maturity. Since January 31, 2001, the provinces and territories are permitted to redeem their bonds held by the CPP Investment Fund prior to their maturity at a value equivalent to market value. The bonds can also be redeemed at the option of the federal Minister of Finance where he considers the redemption necessary to pay pensions, benefits and administration costs. The bonds are then redeemed at face value. No bonds were redeemed by the provinces and the territories prior to maturity during the year ended March 31, 2001.

At March 31, 2001, the balance in the Investment Fund was \$29.6 billion at cost (2000 – \$30.3 billion). The estimated fair value of the balance in the Investment Fund, including accrued interest, is \$37.6 billion (2000 – \$37.5 billion). This estimate is calculated by discounting the bonds' contractual cash flows at rates currently available at year-end for similar investments.



Bonds, at cost (in millions of dollars)

Investment Fund.

	March 31, 2000	Disposals	Re-investments	March 31 200
Newfoundland	633	43	43	63
Prince Edward Island	140	9	9	14
Nova Scotia	1,173	78	78	1,17
New Brunswick	836	53	53	83
Quebec	96	6	6	9
Ontario	13,117	1,038	629	12,70
Manitoba	1,507	111	_	1,39
Saskatchewan	1,341	87	75	1,32
Alberta	3,776	222	222	3,77
British Columbia	4,250	302	149	4,09
Yukon Territory	4	444	_	
	26,873	1,949	. 1,264	26,18
Canada	3,426	23	-	3,40
	30,299	1,972	1,264	29,59

The following schedule presents the classification of bonds by maturity dates and the weighted-average annual rate of return on bonds currently held.

(in millions of dollars)

	2001		2000	
	Investment	Average	Investment	Average
	at cost	yield	at cost	yield
Investments maturing				
Within 1 year	2,369	15.31%	1,973	12.66%
1 – 5 years	9,529	12.84%	9,534	13.79%
Over 5 years	17,693	9.38%	18,792	9.84%
Total – Investments	29,591		30,299	
Weighted-average yield on investments		10.97%		11.27%



4. INVESTMENTS HELD BY THE CPP INVESTMENT BRAND

The Canada Pension Plan Investment Board was established by an Act of Parliament in 1997. The Canada Pension Plan Investment Board Act came into force on April 1, 1998. The purpose of the Board is to invest the funds transferred by the CPP in a diversified portfolio of securities. The Board is designed to operate at arm's length from the government and it is required to be accountable to the public, the Minister of Finance and his provincial counterparts through regular reports.

The following schedule provides information on the Board's investments as at March 31.

(in millions of dollars)

ii manons of donars)			
	2001	2000	
Canadian equities, at fair value			
Canadian Equities – TSE 300	3,057	1,954	
(Combination of index funds and direct security			
investments that substantially replicate the TSE 300)			
Other Canadian Equities	1,967	_	
(Diversified portfolio of pooled fund and			
direct security investments)			
Total Canadian equities			
(Cost 2001 – \$5,635; 2000 – \$1,633)	5,024	1,954	
Non-Canadian equities, at fair value			
US Equity Index Fund – S&P 500	1,070	220	
EAFE Equity Index Fund	1,061	219	
Total non-Canadian equities			
(Cost 2001 – \$2,407; 2000 – \$400)	2,131	439	
Total investments	7,155	2,393	

In accordance with its Investment Policy, 100% of the CPP Investment Board's investments are allocated to equities, with at least 70% of the book value allocated to Canadian equities and the remainder to non-Canadian equities.

The regulations governing the CPP Investment Board allow the active management of up to 50% of Canadian equities, on a book value basis. The regulations restrict the remaining investments in Canadian equities to substantially replicate the composition of one or more broad market indices. As at March 31, 2001, approximately 64% of Canadian equity investments, on a book value basis, substantially replicated the Toronto Stock Exchange 300 Composite Index.

Under the terms of the Investment Policy, investments in non-Canadian equities should substantially replicate broad market indices. Non-Canadian investments are held in funds that substantially replicate the Morgan Stanley Capital International ("MSCI") EAFE Index and the Standard & Poor's ("S&P") 500 Index. Investments are not hedged against changes in foreign currency exchange rates.



The CPP Investment Board's audited financial statements for the year ended March 31, 2001 are publicly available and provide details concerning the Board's investment policy, its investments and portfolio return.

5. RECEIVABLES FROM BENEFICIARIES

(in millions of dollars)

	2001	2000
Balance of pensions and benefits overpayments	76	75
Less: allowance for doubtful accounts	30	29
	40	40
	46	46

Human Resources Development Canada has procedures to detect overpayments. During the year, overpayments totalling \$33 million (2000 – \$30 million) were established and remissions of debts totalling \$8 million (2000 – \$13 million) were granted. A further \$24 million was recovered (2000 – \$24 million).

6. CANADA PENSION PLAN ACCOUNT

The CPP Account was established in the accounts of Canada by the CPP Act, to record the contributions, interest, pensions, benefits and administration costs of the Plan. It also records the amounts transferred to or received from the CPP Investment Fund and the CPP Investment Board.

The balance of the CPP Account includes the Deposit with the Receiver General for Canada and any short-term investments. As at March 31, the Deposit with Receiver General for Canada amounts to \$6,420 million (2000 – \$6,261 million). There were no short-term investments at year-end for 2000 and 2001.

7. CONTRIBUTIONS

The Department of Finance estimates annual contributions based on a forecast of pensionable earnings. That forecast of pensionable earnings is based on a formula using many factors such as the growth in the number of contributors and in the average pensionable earnings. Although the Department of Finance uses recent data and statistics in the calculation, a variation may occur in the factors used to estimate those earnings. For example, a variation of one percentage point in the number of contributors or in the average pensionable earnings for 2000, would result, in each case, in a change of \$197 million (1999 – \$162 million) in estimated contributions.

The Canada Customs and Revenue Agency (CCRA) transfers contributions to the CPP based on the Department of Finance's estimate of contributions to be collected for a calendar year and on its own contribution collection schedule for the year. Actual pensionable earning and contribution amounts for 2000 and 2001 will only be known once the CCRA has processed all employers' and self-employed workers' declarations of contributions for 2000 and 2001.

Adjustments, if any, are recorded in the year in which they are known. The CPP received \$357 million in 2000-2001 as an adjustment for 1999 and preceding years (1999-2000 – CPP paid \$138 million for 1998 and preceding years).

8. INVESTMENT INCOME

(in millions of dollars)	2001	2000
Interest on bonds held by the CPP Investment Fund	3,326	3,463
Interest on deposit with the Receiver General for Canada at a weighted-average rate of 5.27% (2000 – 4.56%)	362	266
Interest on short term investments with Canada, at a weighted-average rate of 5.63% (2000 – 4.71%)	12	49
nvestment Board net income / (loss) from operations:		
Net unrealized gains / (losses)	(1,247)	359
Fund distributions of capital gains and dividends	213	9
Net realized gains	180	89
Other investment income	9	6
Less: Investment and administrative expenses	(6)	(3)
	(851)	460
	2,849	4,238

9. PENSIONS AND BENEFITS MISPAYMENTS

Given the nature of the Plan and the number of applicants and beneficiaries, from time to time overpayments and underpayments of pension and benefit payouts may be made.

Human Resources Development Canada undertook a study of the extent and nature of pension and benefit mispayments based on the 1999 payment year. It estimated through statistical extrapolation, the most likely value of undetected mispayments to be \$32.4 million (1998 payment year – \$31.3 million). This includes underpayments of \$21.3 million (1998 payment year – \$24.4 million) and overpayments of \$11.1 million (1998 payment year – \$6.9 million).



10. ADMINISTRATION COSTS

(in millions of dollars)

	2001	2000
Pension and benefit delivery, accommodation and corporate services (Human Resources Development Canada)	243	242
Collection of contributions (Canada Customs and Revenue Agency)	78	58
Cheque issue and computer services (Public Works and Government Services Canada)	13	14
Actuarial services Office of the Superintendent of Financial Institutions)	1	1
	335	315

Administration costs of the CPP represent the cost of services received from a number of federal government departments and an agency. Those costs are charged to the CPP in accordance with memoranda of understanding.

11. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year's presentation.

FEEDBACK FORM

THE ANNUAL REPORT OF THE CANADA PUNSION PLAN -- IS IT GIVING YOU WHAT YOU NEED?

The CPP Annual Report is designed to help Canadians understand the role of the Canada Pension Plan and how it is managed. It describes developments during the past fiscal year that affect the Plan and provides the Plan's audited financial statements for the fiscal year ending March 31, 2001. The Report also gives a glimpse of where the Plan is headed and what steps are being taken to make sure it will continue to be there for future generations.

We are interested in hearing what you have to say about our report and how we can make it more useful to readers. Please take the time to fill in the brief questionnaire below, circling your responses. Then fax this sheet back to us at (613) 957-1602.

1. What is your purpose in reading the CPP Annual Report?

- To obtain general information about the CPP
- To do research for studies or private business
- To assist in counselling Canadians on their retirement finances
- To assist clients in a medical context
- To find out about the recent changes to the CPP
- Other (please specify)

2. What sort of CPP information interests you?

- General information about the CPP, such as benefits and services
- Disability benefits information
- CPP financial information, such as investments and expenditures
- Other (please specify)

3. `	Was	the	information	you	needed	easy	to	find	in	the	Report?
-------------	-----	-----	-------------	-----	--------	------	----	------	----	-----	---------

☐ YES	□ NO		
(If no, please	specify why not)		



- 4. Which would you prefer to receive?
 - An executive summary of the Annual Report
 - A full report
 - A short report, with information on where to find detailed information on specific areas
 - Notification of the Report's availability and the Web site location



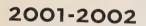
annual report
of the Canada Pension Plan



Canada Pension Plan

Annual Report

of the Canada Pension Plan





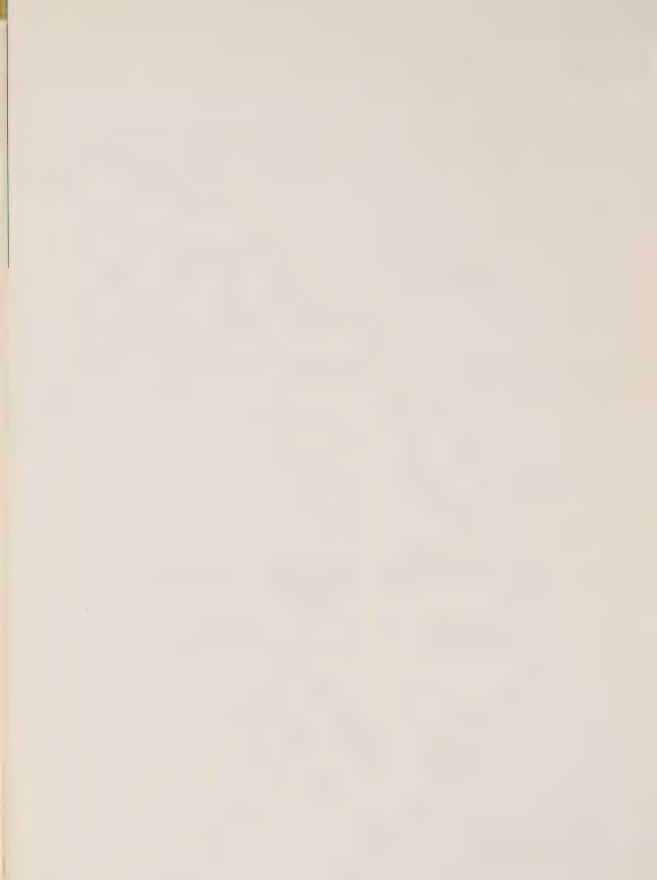


TABLE OF CONTENTS

2001–2002 THE YEAR AT A GLANCE	
THE CANADA PENSION PLAN IN BRIEF	i.
FINANCING THE CPP A Fair Approach to Funding	
FINANCIAL ACCOUNTABILITY	6
CPP Account	(
BENEFITS AND EXPENDITURES	Ç
Retirement Pensions Disability Benefits Survivor Benefits Death Benefits Other Provisions	99
IMPROVED SERVICE DELIVERY	11
Reaching Out to Canadians Delivering Service Processing Benefits	11
MANAGING THE CPP	13
Collecting and Recording Contributions Administrative Costs The Appeals Process	13 13
LOOKING TO THE FUTURE	16
CPP Online Online Services Simplifying the Application Process Reaching All Canadians	16 17
CANADA PENSION PLAN FINANCIAL STATEMENTS	19
FEEDBACK FORM	33

This report on the Canada Pension Plan (CPP) consolidates input from all departments providing services on behalf of the Plan: Human Resources Development Canada (HRDC), the Department of Finance, the Canada Customs and Revenue Agency (CCRA), Public Works and Government Services Canada (PWGSC), and the Office of the Superintendent of Financial Institutions (OSFI).





2001-2002 THE YEAR AT A GLANCE

IN FISCAL 2001-2002:

- The Canada Pension Plan (CPP) is on a sound financial footing according to the *Eighteenth Actuarial Report*, tabled in Parliament in December 2001. The Report, which provides an actuarial examination of the Plan as at December 31, 2000, confirms that the 1997 federal-provincial CPP Agreement has put Plan finances back on track.
- Canadians received more than 4.2 million benefits with a total value of approximately \$20.5 billion from the Canada Pension Plan.
- Eleven million people contributed to the CPP.
- 12.9 million people received Statements of Contributions.
- Administrative costs amounted to approximately \$371 million, or 1.8 percent of the \$20.5 billion in benefits paid. This compares favourably with administrative costs for other large pension plans and individual RRSPs.
- 2.8 million people received \$14.3 billion in CPP retirement pensions.

- 890,783 surviving spouses or common-law partners and 86,956 children of deceased contributors received over \$3.1 billion in benefits.
- About 279,000 persons with disabilities and 90,656 of their children received almost \$2.9 billion in CPP disability benefits.
- On March 31, 2002, total CPP assets were valued at approximately \$51.9 billion and equalled 2.5 years of benefits. The assets were held in provincial, territorial and federal government bonds, short-term investments, and domestic and foreign equities.
- Changes to the *Canada Pension Plan Regulations* were implemented on January 1, 2002 to reflect the scheduled increase in the annual contribution rate to 9.4 percent and the statutory increase in maximum pensionable earnings. The last scheduled contribution rate increase, to 9.9 percent in 2003, will occur on January 1, 2003, and will fully implement the 1997 reforms agreed to by federal and provincial governments.



THE CANADA PENSION PLAN IN BRIEF

Almost everyone who participates in the paid labour force in Canada contributes to the Canada Pension Plan (CPP) or to its sister plan, the Quebec Pension Plan (QPP), and will at some time benefit from their provisions.

Established by an act of Parliament in 1965 and implemented in 1966, the CPP is a jointly-managed federal-provincial plan. Quebec manages and administers its own plan, the QPP, and participates in the decision making of the CPP. Benefits from either plan are based on pension credits accumulated under both. The plans are financed through mandatory contributions from employees, employers and self-employed people, as well as from investment income. (Information on the QPP is available from the Régie des rentes du Québec at: www.rrq.gouv.qc.ca/an/accueil/00.htm)

While it is perhaps best known for its retirement pensions, the CPP also provides children's, survivor, disability and death benefits. The CPP administers one of the largest long-term disability plans in Canada. Vocational rehabilitation services offered under the Plan help some disability beneficiaries regain their independence by making it possible for them to return to the labour force, following a customized return-to-work plan.

Many Canadians live and work in other countries. Others move here after contributing to a public pension plan elsewhere. To help protect their pensions, Canada has entered into social security agreements with other nations. These agreements enable Canadians to receive public pensions from other countries and to receive CPP payments abroad. They also permit continuity of social security coverage when Canadians are temporarily working outside the country, eliminate duplicate contribution payments, and assist persons to meet the eligibility requirements for CPP and other countries' public pensions.

Benefit calculations are based on how much and for how long a contributor has paid into the CPP. Benefits are not paid automatically — everyone must apply and provide proof of eligibility. However, once eligibility is determined, CPP benefits are paid even if the beneficiary also receives income from other sources. Benefits are adjusted in January of each year to reflect increases in the average cost of living, as measured by the Consumer Price Index.

FINANCING THE CPP

As joint stewards of the CPP, the federal and provincial ministers of Finance review the Plan's financial state every three years and make recommendations as to whether benefits and/or contribution rates should be changed. They base their recommendations on a number of factors, including the results of an examination of the Plan by the Chief Actuary. The Chief Actuary is required under the legislation to produce an actuarial report on the CPP every three years (in the year before the legislated ministerial review of the Plan).

Changes to the legislation governing the general level of benefits, the rate of contributions or the investment policy can be made only through an act of Parliament. All such changes require the agreement of at least two thirds of the provinces representing at least two thirds of the population. The changes come into force only after two years' notice, unless all the provinces waive this requirement. Quebec participates in the decision-making formula, even though it has opted out of the CPP and administers its own plan. The Quebec Pension Plan must be implicated in changes to the CPP if the two plans are to remain parallel.

Finance ministers last reviewed the CPP in December 2002. They agreed to leave the schedule of contribution rates unchanged, as the Eighteenth Actuarial Report, prepared for the review, confirmed the financial sustainability of the Plan (taking into account the projected aging of Canada's population). Further information on the 2002 federal-provincial review and previous reviews of the Plan can be found at: www.cpp-rpc.gc.ca

The Eighteenth Actuarial Report was tabled in Parliament by the Minister of Finance in December 2001. It provides an actuarial examination of the Plan as at December 31, 2000. The Report confirms that the 9.9 percent combined employer-employee contribution rate scheduled for 2003 and thereafter is expected to be sufficient to sustain the Plan over the long term. The Eighteenth Actuarial Report, along with previous actuarial reports, can be found at: www.osfi-bsif.gc.ca/eng/office/actuarialreports/index.asp

A panel of independent actuaries reviewed the Eighteenth Actuarial Report. Their conclusions should give Canadians confidence. The panel concluded that the Report is based on economic and demographic assumptions that are reasonable in the aggregate (though somewhat on the conservative side). It also stated that the Report meets current professional standards of actuarial practice and uses data and methodologies that are appropriate and reasonable. In addition to its conclusions, the panel made a number of recommendations regarding the preparation of future actuarial reports. The panel's report and recommendations can be found at: www.osfi-bsif.gc.ca/eng/office/actuarialreports/ index.asp

The Eighteenth Actuarial Report is the second triennial actuarial report since the major federal-provincial reform agreement in 1997. Its confirmation of the financial sustainability of the Plan underlines the success of federal-provincial cooperation in this area.

Bill C-3, An Act to Amend the Canada Pension Plan and Canada Pension Plan Investment Board Act, was tabled by Parliament in September 2002 and received Royal Assent in April 2003. It proposes to transfer the bond portfolio and operating balance that are currently managed by the federal government to the CPP Investment Board. Consolidating all assets in one professionally managed organization will allow the CPP Investment Board to determine the best asset mix and investment strategy. The goal is to enhance rates of return and manage risks for plan members. The Chief Actuary in the Nineteenth Actuarial Report has estimated that the transfers could increase CPP assets by about \$85 billion over 50 years. When a Bill that materially impacts the estimates contained in the most recent statutory actuarial report is introduced in Parliament (in this case, the Eighteenth Actuarial Report), the CPP legislation requires the Chief Actuary to produce an actuarial report. The Chief Actuary must use the same assumptions and methods as the statutory report but modify them to take into account the proposed legislative change.

A FAIR APPROACH TO FUNDING

When it was introduced, the CPP was designed as a pay-as-you-go plan, with a small reserve. This meant that the benefits for one generation would be paid largely from the contributions of later generations. This approach made sense under the economic, financial and demographic circumstances of the time. The period was characterized by a rapid growth in wages, labour-force participation and low rates of return on investments.

The federal and provincial governments decided to keep contributions at a reasonable level while beginning to pay full retirement benefits as early as the mid-1970s. This was important — many of the seniors who received benefits at that time had been unable to accumulate sufficient retirement savings.

However, demographic and economic developments and changes to benefits in the 30 years that followed resulted in significantly higher costs. Federal and provincial finance ministers began their statutory review of the finances of the CPP in 1996. Contribution rates, already legislated to rise to 10.1 percent by 2016, were expected to have to rise again — to 14.2 percent by 2030 — to continue to finance the program on a pay-as-you-go basis.

This would mean imposing a heavy financial burden on Canadians in the workforce 25 years down the road, which was deemed unacceptable by the federal and provincial governments. Therefore, in 1997, they agreed instead to change the funding approach of the Plan to a hybrid of pay-as-you-go and full funding (where each generation pays for its own benefits).

Steady-state financing

Under steady-state financing, the contribution rate is scheduled to increase incrementally (from 5.6 percent in 1996) to 9.9 percent in 2003 and to remain at this level thereafter (see Figure 1 on page 5). Steady-state financing requires that contribution rates be set no lower than the lowest rate expected to ensure the long-term financial stability of the Plan without recourse to further rate increases. (The combined employer-employee contribution rate in 2002 was 9.4 percent, up from 8.6 percent in 2001.)

Steady-state financing will generate a level of contributions between 2001 and 2020 that exceeds the benefits paid out every year during this period. Funds not immediately required to pay benefits will be transferred to the CPP Investment Board for investment in financial markets. Plan assets will cover an increasing number of years of expenditures over this period (see Figure 1 on page 5).

After 2020, as more and more baby boomers retire and benefits paid begin to exceed contributions, investment revenues from the CPP's accumulated assets will provide the funds necessary to make up the difference with contributions. Nonetheless, contributions will remain the main source of funding for benefits. Despite the increase in cash outflows from the Plan due to the retirement of the baby boom generation, Plan assets will continue to cover at least five years of benefits. On this basis, the Eighteenth Actuarial Report concludes that the pool of assets the Plan is expected to accumulate should make it possible to absorb almost any unforeseen economic or demographic fluctuations. These fluctuations would otherwise have to be reflected in an increase in the contribution rate above the scheduled 9.9 percent rate for 2003 and on (see Figure 1). Under the Nineteenth Actuarial Report, the Chief Actuary expects the CPP to accumulate an even larger pool of assets, putting the CPP in an even stronger financial position.

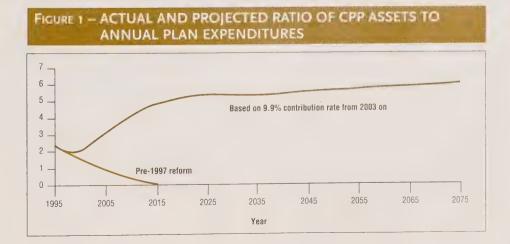
The *Eighteenth Actuarial Report* calculates the value of accrued pension benefits at \$487 billion as of December 31, 2000, and Plan assets (valued at cost) at \$43.7 billion. The future financial

health of a plan funded along the lines of the Canada Pension Plan is better measured by the evolution of the projected growth rate of assets and liabilities than by accrued pension benefits. The reforms agreed to by federal and provincial governments in 1997 should ensure that CPP assets grow much more quickly than liabilities over the next 20 years and at least as rapidly thereafter. This will ensure a stable level of funding for the Plan over the long-term.

A partially funded CPP not only balances the two approaches to funding, but also complements the other components of Canada's retirement income system:

- the Old Age Security program, funded by federal government revenues, and
- private savings, including tax-assisted, fully funded employer-sponsored pension plans and registered retirement savings plans (RRSPs).

A diversified funding approach allows Canada's retirement income system to be less vulnerable to changes in economic and demographic conditions than are systems in countries that use a single funding approach.





FINANCIAL ACCOUNTABILITY

Since 1999-2000, the CPP has used the accrual basis of accounting for revenues and expenses. This method gives administrators a detailed financial picture and allows accurate matching of revenue and expenditures in the year in which they occur.

As of March 31, 2002, the total net assets of the CPP were valued at approximately \$51.9 billion (equal to 2.5 years' worth of benefits). Net Plan assets are contributions and investment income accumulated since the Plan's inception in 1966, less benefits and expenditures over the same period. Plan assets are expected to increase appreciably over the next 20 years.

CPP ACCOUNT

A separate account, the CPP Account, has been established in the accounts of the Government of Canada to record the financial elements of the Plan: contributions, interest, pensions and other benefits paid, and administrative expenditures. The CPP Account also records the amounts transferred to or received from both the CPP Investment Fund and the CPP Investment Board. Spending authority is limited to the Plan's net assets.

For the year ending March 31, 2002, the CPP Account's operating balance was maintained at a level designed to cover three months' worth of forecast benefit payments and administrative charges.

During 2001-02, the operating balance earned an average interest rate of 3.09 percent, or \$189 million.

CPP INVESTMENT FUND

Before the 1998 changes to the CPP's investment policy, funds not immediately needed to pay benefits and maintain liquidity in the CPP Account were invested only in long-term bonds of the provincial and territorial governments, provincial Crown agencies, and the Government of Canada. The balance in the Investment Fund on March 31, 2002, was \$28.3 billion, down slightly from \$29.6 billion in March 2001 because of non-renewal of maturing bonds. All securities held were invested for 20-year terms.

Since 1998, funds coming into the Plan that are not immediately needed to pay benefits, and Investment Fund securities that are redeemed, have been transferred to the CPP Investment Board. They will be invested in capital markets. As a transitional measure, all provinces and territories can roll over their CPP borrowings at maturity for one additional 20-year term if they wish, at the same rate of interest as they would pay on their other market borrowings.

During the 1999 federal/provincial triennial review, a decision was made to amend the CPP legislation. The amendment gives the provinces and territories the option of prepaying some or all of their CPP borrowings at market rates of interest, at no cost to the Plan. This option, which was implemented in January 2001, can assist provinces that wish to pay down their debt.

Interest

In 2001-02, the Investment Fund earned about \$3 billion in interest, which was deposited in the CPP Account. This compares with \$3.3 billion earned in the previous 12 months. The Canada Pension Plan Financial Statements summarize the status of the Investment Fund as of March 31, 2002 (see page 19).

Maturing securities are redeemed as they come due by the federal government, provinces and territories. In 2001-02, \$2.4 billion worth of bonds matured, and of those, the provinces and territories renewed \$1.1 billion for additional 20-year terms.

Rates of return

The Investment Fund continues to benefit from the high rates of return for securities that were bought in the early 1980s, when interest rates were relatively high. These securities are 20-year government bonds bearing a weighted average annual nominal return of 10.43 percent. The Fund's average nominal rate of return can be expected to remain above nine percent for the next several years. For this reason, the short-term rate of return, based on these investments, will exceed the Fund's expected long-term rate of return of 6.5 percent, or 3.5 percent after inflation.

CPP INVESTMENT BOARD

The CPP Investment Board (CPPIB) was created by an act of Parliament in December 1997 to invest funds not required by the Canada Pension Plan to pay current benefits.

On March 31, 2002, the market value of assets invested by the CPPIB in Canadian and foreign equities totalled \$14.3 billion, which represented about 27 percent of the Plan's assets. The CPPIB's annual report, as well as its quarterly financial statements, can be found at: www.cppib.ca

The Investment Board operates at arm's length from government. Its legislated mandate is to manage funds transferred from the CPP "in the best interests of the contributors and beneficiaries of the Plan." The Board is to "invest its assets with a view to achieving a maximum rate of return, without undue risk of loss." The Board must also consider the factors that affect the Plan's funding and its ability to meet its financial obligations.

In developing its asset mix policy, the CPP Investment Board considers the Plan's fixed income assets (the bond portfolio and operating balance), which are administered by the

Department of Finance. As a result, it has decided to invest solely in equities in order to bring balance to the total CPP portfolio. The CPP Investment Board has a long-term investment horizon. The Chief Actuary estimates that contribution revenues will exceed CPP benefit payments and expenses well into the future, and that the CPP will not need money from the Investment Board for about 20 years.

Further information on the CPPIB's mandate, structure and investment policy can be found on its Web site.

Current investments

As at March 31, 2002, approximately 70 percent of the CPPIB's \$14.3 billion in assets was invested in Canadian equity markets and 30 percent in equity markets in the United States, Europe and Asia. The CPPIB has full discretion over its equity policy. It is subject to the foreign property rule and can invest up to 30 percent of the book value of its assets outside Canada.

In the year ended March 31, 2002, the CPPIB was investing mostly in externally managed index funds. These replicated the composition of the Standard & Poor and Toronto Stock Exchange Composite Index (formerly TSE, now referred to as TSX) of approximately 300 companies that trade on the TSX. They also reflect the Standard & Poor's 500 Index of large companies in the US and the Morgan Stanley Capital International EAFE (Europe, Australasia and the Far East) Index of about 1,000 companies.

In June 2001, the CPP Investment Board initiated a program to invest in private equities through external managers to diversify its investment portfolio. As of March 31, 2002, \$458 million, or approximately 3.2 percent of the CPPIB's total assets, had been invested in private equities.



During the 2001-02 fiscal year, the CPPIB's equity portfolio earned \$316 million, representing a rate of return of 3.4 percent.

Investing for our future

The CPP Investment Board has expanded into private equities through externally managed funds that provide venture capital and expansion financing to private companies. It expects to commit as much as 10 percent of total equities to private equities and five percent to other private market investments such as real estate, infrastructure, and natural resource and energy assets. These investments will be made through limited partnerships or pooled funds managed by investment firms in Canada and around the world.

In compliance with its statutory requirement to hold a public meeting in each participating province at least once every two years, the Board held public meetings in the provincial capitals in January 2001 and June 2002.

BENEFITS AND EXPENDITURES

The number of people receiving CPP benefits has increased steadily over the past decade, as have expenditures to pay for the increased claims. Figure 2 shows the yearly increases since 1998-1999. Figure 3 shows the percentage of CPP expenditures by type of benefit.

RETIREMENT PENSIONS

Retirement pensions represent 66 percent of the total number of CPP benefits paid and 70 percent of the total benefit dollars paid out by the CPP in 2001-02. The amount of each contributor's pension depends on how much and how long he or she has contributed and at what age he or she begins to draw the benefits. In March 2002, the monthly maximum retirement pension was \$788.75; the average amount paid was \$440.34.

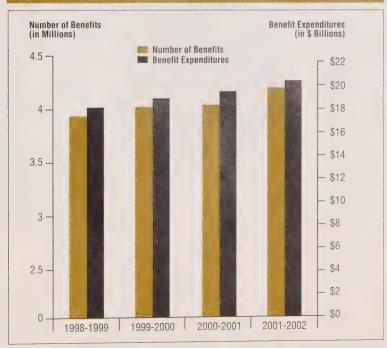
DISABILITY BENEFITS

Disability benefits, paid to eligible contributors and their children, represent nine percent of the total number of CPP benefits paid and 14 percent of the total benefit dollars paid out by the CPP in 2001-02. In 2002, the maximum monthly disability benefit was \$956.05; the average amount paid was \$719.83. The children's benefit was a flat rate of \$183.77.

SURVIVOR BENEFITS

Survivor benefits, paid to the surviving spouse of the contributor and his/her dependent children, represent 23 percent of the total number of CPP benefits paid and 15 percent of the total benefit dollars paid out by the CPP in

FIGURE 2 - BENEFITS AND EXPENDITURES BY FISCAL YEAR



2001-02. The amount of the monthly survivor benefit varies depending on a number of factors, including the age of the spouse at death and whether the beneficiary receives other CPP benefits as well.

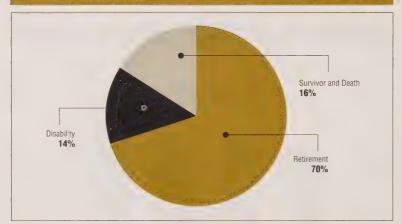
DEATH BENEFITS

Death benefits represent two percent of the total number of CPP benefits paid and one percent of the total benefit dollars paid out by the CPP in 2001-02. The death benefit is a one-time payment. The maximum payable is \$2,500; the average payment in March 2002 was \$2,186.10.

OTHER PROVISIONS

CPP includes several provisions to help keep benefits as high as possible. These include the child rearing drop-out provision, pension sharing, credit splitting and the 15 percent general drop out. If you wish to know more about these, see our contact information on the inside front cover of this report.

FIGURE 3 – PERCENTAGE OF BENEFIT DOLLARS PAID FOR 2001-2002



IMPROVED SERVICE DELIVERY

REACHING OUT TO CANADIANS

During 2001-02, HRDC continued its efforts to help Canadians better understand public pensions and the retirement income system, and to encourage them to actively plan and prepare for their own retirement. Information on the CPP is available in print, on the Internet, in person at local offices, by phone, and at electronic kiosks in government offices and public buildings.

Personalized contact with clients continued to receive high priority. In 2001-02, HRDC issued personal CPP Statements of Contributions to more than 12.9 million contributors between the ages of 18 and 70. The statements were accompanied by information on the retirement income system in Canada.

DELIVERING SERVICE

In 2001-02, HRDC focused on maintaining the CPP systems and continuing to modernize CPP program delivery in conjunction with information technology renewal.

Major systems-related initiatives gave CPP staff better online access to contributors' record-of-earnings information and the ability to correct client information online.

New data storage and retrieval features have been added to improve support to external partners, such as provincial social services departments and workers' compensation boards. These changes have improved client service and the speed with which benefits can be adjudicated and inquiries answered.

Work also continues on the rules-based system — a knowledge base to guide the decision-making process and ensure that legislation, operational policy and procedures are correctly and consistently applied.

PROCESSING BENEFITS

CPP services are offered in person, by telephone and by mail. In 2001-02, staff processed 55,709 disability applications (which are complex and require medical information) within an average of 66 days. Other types of applications were processed within 28 days (see Table 1 on page 12).

Better communication with clients and their physicians helped staff make more informed decisions and helped CPP disability applicants better understand the reasons for decisions. As a result, close to 90 percent of the applications for disability benefits in 2001-02 were finalized during the initial phases.

HRDC call centres received over 1.3 million calls about the CPP in 2001-02. Positive responses to initiatives such as the mailout of personalized statements to CPP contributors and inquiries received during the traditionally busy T4 period contributed to the high number of calls.



TABLE 1 - SPEED OF PROCESSING NEW APPLICATIONS

National speed-of-service measures	Objective	2001-2002 National Average
Number of working days to process initial CPP applications*		
(excluding disability applications)	28	28
Number of working days to process initial CPP disability applications	62	66

^{*}Number of days between the date the application is received and the date of the decision.

TABLE 2 - TELEPHONE SERVICE STATISTICS*

	2001-2002
Percentage of clients served by a service agent within	
180 seconds of placing a call**	81.9%
Average waiting time to speak with a service agent	61 sec.
Average time clients spend talking to a service agent	244 sec.

Table includes CPP and Old Age Security totals. Speed of service does not vary between programs.

Higher call volumes mean managing longer wait times. This is a challenge throughout the year. The problem was addressed by increasing staff in telecentres and by installing updated equipment and new software designed for high volume and peak periods. CPP is also piloting the use of the Internet to complement traditional telephone services and to address the growing volume.

Telephone inquiries continue to become more complex. Direct support is being implemented for staff through updated online reference materials and new national training packages. This will provide comprehensive and consistent training to staff across Canada.

The objective is to serve clients within 180 seconds for 95 percent of calls.

MANAGING THE CPP

COLLECTING AND RECORDING CONTRIBUTIONS

Contributions to the CPP are paid on earnings between a minimum and a maximum amount. The minimum is \$3,500 (it remains constant) and the maximum is adjusted annually to reflect the growth in the average Canadian industrial wage. The maximum amount of pensionable earnings as of January 1, 2002, was \$39,100 (up from \$38,300 in 2001). Contributions stop once a contributor reaches the age of 70 or begins to receive a CPP retirement pension or disability benefit.

The contribution rates for the year 2002 are 4.7 percent for employees and 4.7 percent for employers. Persons who are self-employed pay both portions, for a total of 9.4 percent. Approximately 94 percent of contributions come from employers and employees and the remaining six percent from the self-employed.

All CPP contributions are remitted to the Canada Customs and Revenue Agency (CCRA). In 2001-02, contributions amounted to \$23.4 billion.

CCRA also assesses and verifies earnings and contributions, advises employers and employees of their rights and responsibilities, conducts audits, and reconciles reports and T4 slips. To verify that contribution requirements are being met, CCRA applies a compliance and enforcement process that can vary from a computerized data match to an on-site audit.

There are approximately 1.4 million existing employer accounts. During 2001-02, CCRA conducted 53,942 audits, concentrating on files with irregularities.

ADMINISTRATIVE COSTS

In 2001-02, it cost approximately \$371 million to administer the CPP, with HRDC accounting for the largest portion — \$279 million (see Table 3 on page 14). CCRA required approximately \$78 million and Public Works and Government Services Canada (PWGSC) \$12 million, for services to the CPP. The Office of the Superintendent of Financial Institutions (OSFI), where the Office of the Chief Actuary is housed, and the Department of Finance incurred costs of \$1.4 million and about \$500,000, respectively.

Since the administrative costs of the CPPIB are drawn from CPPIB investment income, they are reported in that organization's annual report. This is consistent with the arm's length administration of the Board. In 2001-02, the CPPIB reported \$11.4 million in investment and administrative expenses.

CPP administrative expenses in 2001-02 represent 1.8 percent of the \$20.5 billion in benefits paid. This ratio compares very favourably with that of other pension plans. Administrative costs for large pension plans in the private sector, for example, average five percent of expenditures.



TABLE 3 - CPP ADMINISTRATIVE COSTS 1999-2000 TO 2001-2002

	Expenditures (in \$ thousands)		
Department/Agency	1999-2000	2000-2001	2001-2002
Human Resources Development Canada	\$241,328	\$242,865	\$279,159
Canada Customs and Revenue Agency	58,193*	77,746	77,618
Public Works and Government Services Canada	14,094	12,810	12,440
Office of the Superintendent of Financial Institutions	1,181	1,102	1,364
Finance Canada	346	395	492
Total	\$315,142	\$334,918	\$371,073

This amount has been reduced by \$13 million as a result of an audit of administrative costs covering the fiscal years 1994-1995 to 1997-1998.

CPP administrative costs also compare favourably with those of RRSPs. Table 3 presents the CPP's administrative expenditures for the last three years.

THE APPEALS PROCESS

There are three opportunities for review of a person's CPP benefit application. Most requests for review concern an application for disability benefits.

The first level of review involves a request to the Minister of HRD for a reconsideration (or administrative review) of a decision concerning a benefit or a division of pension credits. The number of requests for reconsideration in disability cases declined slightly from 12,649 in 2000-01 to 12,092 in 2001-02. During that same period (between April 2001 and March 2002), the number of benefits awarded at appeal increased from 25 to 28 percent.

A person who is not satisfied with the decision made at the departmental reconsideration level can appeal to a Review Tribunal. A Review Tribunal is an independent, impartial body made up of three people chosen by the Commissioner of Review Tribunals from a panel of 300 to 325 part-time members appointed by Order-in-Council. The grant rate at the Review Tribunal level was 40 percent in 2001-02.

The final opportunity for review is the Pension Appeals Board (PAB) — a tribunal operating at arm's length from HRDC. PAB members are judges or former judges of the federal court or a superior, district or county court of a province. Hearings are not automatic at this level; claimants or the Minister of HRD must request "leave to appeal." Ninety-five percent of the 1,257 applications for leave to appeal received in 2001-02 concern CPP disability benefits. The grant rate for the PAB in 2001-02 was 63 percent of applications received.

THE APPEALS PROCESS

INITIAL DECISION

Human Resources Development Canada (HRDC) issues a decision on CPP benefit eligibility.

If the client is not satisfied with the decision, he or she can submit a request for review to the Minister of Human Resources Development.

FIRST LEVEL OF REVIEW Review of client file by HRDC and decision issued

If the client is not satisfied with the decision, he or she has 90 days to appeal to the Office of the Commissioner of Review Tribunals.

SECOND LEVEL OF REVIEW Appeal to the Office of the Commissioner of Review Tribunals

The case is heard and a decision is issued.

If either the client or HRDC is not satisfied with the decision, an application for "Leave to Appeal" may be submitted to the Pension Appeals Board.

THIRD LEVEL OF REVIEW Appeal to the Pension Appeals Board

If leave is granted, the case is heard and a decision is issued.

The decision of the Pension Appeals Board is final, subject to judicial review by the Federal Court.

The appointment of a significant number of additional members to the Office of the Commissioner of Review Tribunals and the PAB also made it possible to process appeals more quickly. To reduce the waiting period, initiatives are in place to increase the volume of cases heard each year.

HRDC continues to work closely with the Office of the Commissioner of Review Tribunals and the Pension Appeals Board to improve co-ordination among their offices and to update management practices at the appeals level. As a result, all three organizations have improved client communications.



LOOKING TO THE FUTURE

Some 300,000 new CPP applications are received each year and a significant increase is expected as our population ages. The challenge will be to improve service delivery to ensure that Canadians continue to receive timely, accurate and client-focused service. Long-term initiatives aimed at meeting that challenge are now underway.

CPP ONLINE

CPP Online will support the objectives of the federal Government On-Line (GOL) initiative (the commitment to provide Canadians with full electronic access to key federal information and services by 2005). CPP Online initiatives include the implementation of a Web-based system that allows a wider range of inquiries and client transactions online. Six client groups — seniors, persons with disabilities, survivors, migrants, low-income pensioners, and contributors — will be the focal point for modernizing CPP service delivery over the decade. In this context, the importance of strengthening our technological framework is clear, especially since the fastest-growing group of Internet users is the seniors' population.

HRDC has made it a priority to update the systems that help deliver benefits. Evolving over the next four years, the systems will support better decision making by improving the information available to management, clients and staff through faster and more up-to-date technology. The improvements will further reduce the paper burden and the complexity of the application process.

Putting CPP information online is a multiyear project designed to provide Canadians with online access to information, data, and services essential to income security and retirement planning. A comprehensive review of legislation, regulations, policies, and procedures will lay the groundwork for an innovative, leading-edge approach to online services.

ONLINE SERVICES

Over the next two years, HRDC will offer a number of online service options for access to information and services that are essential to income security and retirement. These services will include:

Self-service options by Internet

In 2004, CPP clients will have secure online access to their personal information. They will be able to view and update their address and direct-deposit information online. The enhancement of these capabilities will continue, allowing more information to be viewed and updated in coming years.

Canadian Retirement Income Calculator upgrade

Canadians can estimate their retirement income using an online calculator. They now have access to an enhanced calculator that will incorporate their CPP contributor information. It will also offer additional complex CPP calculations along with alternative retirement, family or life-event scenarios. The calculator is online at: www.hrdc-drhc.gc.ca/isp/common/info_e.shtml

Streamlined and automated CPP Statement of Contributions

CPP contributors will be able to request their Statement of Contributions online as of the spring of 2003 and will be able to view it online by the spring of 2004.

SIMPLIFYING THE APPLICATION PROCESS

Simplifying the application process for the CPP retirement pension is part of the planned service delivery improvements. The goal is to make the application process easier for clients through streamlined, client-driven and more effective services.

Making it easier to apply will be the first step in building a modern service system that is based on Canadians' needs and expectations. It will reduce the need for complex information and documentation with applications. As part of this initiative, HRDC will introduce services allowing clients to apply for benefits online.

REACHING ALL CANADIANS

Currently, HRDC's programs help millions of people in Canada every day. The Department's primary objective is to ensure that every Canadian receives the benefits to which he or she is entitled under its programs.

A multi-year strategy has been launched to ensure that all Canadians are aware of the benefits available and to help them more easily obtain those to which they are entitled.

Working in partnership with other departments and with private-sector organizations, the Department is extending its message as far as possible — especially to those who are difficult to contact through traditional methods. Staff will continue to work extensively with the various media (mainstream, ethnic and specialty). Advertisements, articles, radio and cable TV productions will all be used and, wherever possible, potential clients will be contacted directly through mailings, outreach initiatives and other means.





CANADA PENSION PLAN

FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2002

MANAGEMENT'S RESPONSIBILITY

FOR FINANCIAL STATEMENTS

The financial statements of the Canada Pension Plan have been prepared by management of Human Resources Development Canada in accordance with the accounting policies set out in Note 2 to the financial statements.

Management is responsible for the integrity and objectivity of the data in these financial statements, including the amounts which must, of necessity, be based on best estimates and judgements. The financial information presented throughout the Annual Report is consistent with the financial statements.

In support of its responsibility, management has developed and maintains books of account, financial and management controls, information systems and management practices. These are designed to provide reasonable assurance as to the reliability of the financial information, and to ensure that the transactions are in accordance with the *Canada Pension Plan* and regulations, as well as the *Financial Administration Act* and regulations.

The Auditor General of Canada, the external auditor of the Canada Pension Plan, has conducted an independent audit of the financial statements in accordance with Canadian generally accepted auditing standards and has reported to the Minister of Human Resources Development Canada.

Alan Winberg Assistant Deputy Minister

Financial and Administrative Services

Maryantonett Flumian Associate Deputy Minister

July 25, 2002





AUDITOR GENERAL OF CANADA

VERIFICATEUR GÉNÉRAL DU CANADA

AUDITOR'S REPORT

To the Minister of Human Resources Development Canada

I have audited the statement of net assets of the Canada Pension Plan as at March 31, 2002 and the statement of changes in net assets for the year then ended. These financial statements are the responsibility of the management of Human Resources Development Canada. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Canada Pension Plan as at March 31, 2002 and the changes in its net assets for the year then ended in accordance with the significant accounting policies set out in Note 2 to the financial statements.

Sheila Fraser

Sheila Fraser, FCA Auditor General of Canada

Ottawa, Canada July 25, 2002



STATEMENT OF NET ASSETS AS AT

MARCH 31 (IN MILLIONS OF DOLLARS)

	2002	2001
Assets		
Investments		
CPP Investment Fund – at cost (Note 3)		
Provincial and Territorial bonds	24,890	26,188
Canada bonds	3,386	3,403
CPP Investment Board – at fair value (Note 4)		
Canadian equities	10,114	5,024
Non-Canadian equities	4,175	2,131
Cash		
Deposit with Receiver General for Canada	6,770	6,420
Receivables		
Contributions	1,594	1,415
Accrued interest	1,030	1,139
Régime des rentes du Québec	25	24
Beneficiaries (Note 5)	43	46
	52,027	45,790
Liabilities		
Accounts payable	47	51
Accrued pensions and benefits	51	50
CPP Investment Board's liabilities, net of its other assets	4	1
	102	102
Net Assets	51,925	45,688
Net Assets, represented by:		
Canada Pension Plan Investment Fund	28,276	29,591
Accumulated transfers to Canada Pension Plan Investment Board	14,372	7,546
Accumulated net loss from Investment Board's operations	(87)	(391)
Canada Pension Plan Account (Note 6)	6,770	6,420
CPP receivables, net of liabilities	2,594	2,522
Net Assets	51,925	45,688

The accompanying notes are an integral part of these financial statements.

Approved by Human Resources Development Canada:

Alan Winberg Assistant Deputy Minister Financial and Administrative Services Maryantonett Flumian Associate Deputy Minister



STATEMENT OF CHANGES IN NET ASSETS

FOR THE YEAR ENDED MARCH 31

(IN MILLIONS OF DOLLARS)

	2002	2001
Net assets, beginning of year	45,688	41,261
Increase in assets		
Contributions (Note 7)	23,533	21,407
Investment Income (Note 8)	3,565	2,849
	27,098	24,256
Decrease in assets		
Pensions and Benefits (Note 9)		
Retirement	14,270	13,527
Survivors	2,933	2,802
Disability	2,641	2,546
Disabled Contributor's Child	242	233
Death	227	213
Orphan	205	198
Less: Net overpayments	28	25
	20,490	19,494
Administration costs (Note 10)	371	335
	20,861	19,829
Increase in net assets	6,237	4,427
Net assets, end of year	51,925	45,688

The accompanying notes are an integral part of these financial statements.



NOTES TO FINANCIAL STATEMENTS MARCH 31, 2002

1. DESCRIPTION OF THE CANADA PENSION PLAN

a) Description of the CPP

The Canada Pension Plan (CPP) is a federal/provincial plan established by an Act of Parliament in 1965.

The CPP began operations in 1966. It is a compulsory and contributory social insurance program operating in all parts of Canada, except Quebec, which operates the Régime des rentes du Québec, a comparable program. The Plan's objective is to provide a measure of protection to workers and their families against the loss of earnings due to retirement, disability or death.

The Minister of Human Resources Development Canada is responsible for the administration of the Canada Pension Plan (the CPP Act); the Minister of National Revenue is responsible for collecting contributions. The Minister of Finance and his provincial counterparts are responsible for setting CPP contribution rates, pension and benefit levels and funding policy.

The financial activities of the Canada Pension Plan are recorded in the CPP Account (Note 6). The CPP Investment Fund (Note 3) holds the bond portfolio of the Plan, and the Plan's investments in capital markets are managed by the CPP Investment Board (Note 4). The financial transactions affecting the Account and the Investment Fund are governed by the CPP Act and regulations. The Investment Board's transactions are governed by the Canada Pension Plan Investment Board Act and the accompanying regulations.

As stated in the CPP Act, changes to this Act require the approval of at least two-thirds of the provinces having, in the aggregate, not less than two-thirds of the population of all included provinces.

b) Financing

CPP is financed by contributions and investment returns.

Employers and employees pay contributions equally to CPP. Self-employed workers pay the full amount.

CPP was designed initially to be financed on a pay-as-you-go basis, which means that the Plan would operate on a current basis with pensions and benefits being paid out of current contributions. With changes made to the Act in 1997, CPP is now intended to be funded on a "steady-state" basis – that is, combined contributions are planned to increase to 9.9% of pensionable earnings by 2003 and are then expected to level off.

From 1966 to 1986, the combined employer-employee contribution rate remained at 3.6% of pensionable earnings. In 1987, it was raised to 3.8% and increased yearly by 0.2% to reach 5.6% in 1996. In 1997, 1998, 1999, 2000 and 2001, the combined contribution rate was increased by 0.4%, 0.6%, 0.8% and 0.8% respectively. In 2002, it was increased by 0.8% to reach 9.4%. The maximum combined contribution for 2002 was \$3,346 (2001 - \$2,993).

The CPP Act provides that an actuarial report shall be prepared every three years for purposes of the review of the financial state of the CPP by the Minister of Finance and his provincial counterparts. The Eighteenth Actuarial Report of the Chief Actuary of the Office of the Superintendent of Financial Institutions was tabled in the House of Commons in December 2001. Federal and provincial ministers of Finance concluded at the end of the 2002 Triennial Review process that the CPP's financial health is sound and that the 9.9% combined employee-employer contribution rate which will be reached in 2003 is expected to be sufficient to sustain the Plan in the face of an aging population.

c) Net assets of the Plan

The net assets of the Plan are composed of the deposit with the Receiver General for Canada, short term and long term investments in bonds and investments in capital markets managed by the CPP Investment Board. The net assets represent funds accumulated for the payment of pensions, benefits and administration costs. This amount does not cover the actuarial present value of accrued pensions and benefits. As at March 31, 2002, the net assets of the Plan are of \$51.9 billion (2001 – \$45.7 billion). This amount represents 2.5 times the total of pensions and benefits for the year 2001-2002.

d) Pensions and benefits

Retirement pensions – A retirement pension is payable to each contributor at age 60 or older, according to the provisions of the Act. The monthly amount is equal to 25% of the contributor's average monthly pensionable earnings during the pensionable period. The amount may be reduced or increased depending upon whether the contributor applies for a retirement pension before or after age 65. This adjustment cannot exceed 30%. The maximum for new monthly pension payable at age 65 in 2002 is \$788.75 (2001 – \$775.00).

Disability benefits – A disability benefit is payable to a contributor who is disabled, according to the provisions of the Act. The amount of the disability benefit to be paid includes a flat-rate portion and an amount equal to 75% of the earned retirement pension. The maximum for new monthly disability benefit in 2002 is \$956.05 (2001 – \$935.12).

Survivor's benefits – A survivor's benefit is payable to the spouse or common-law partner (the beneficiary) of a deceased contributor, according to the provisions of the Act. For a beneficiary under the age of 65, the benefit consists of a flat-rate portion and an amount equal to 37.5% of the deceased contributor's earned retirement pension. A beneficiary between the ages of 35 and 45 who is not disabled or who has no dependent children receives reduced benefits. For beneficiaries aged 65 and over, the benefit is equal to 60% of the retirement pension granted to the deceased contributor. The maximum for new monthly benefit payable to a beneficiary in 2002 is \$473.25 (2001 – \$465.00).

Disabled contributor's child and orphan benefits – According to the provisions of the Act, each child of a contributor who is receiving disability benefits or who died is entitled to a benefit as long as the child is under the age of 18, or is between the ages of 18 and 25 and attending school full-time. The flat-rate monthly benefit in 2002 is \$183.77 (2001 – \$178.42).

Death benefits – According to the provisions of the Act, a death benefit is a one-time payment to, or on behalf of, the estate of a contributor. The benefit amounts either to 10% of the maximum pensionable earning in the year of death or six times the monthly retirement pension granted to the deceased contributor, whichever is less. The maximum death benefit in 2002 is \$2,500 (2001 – \$2,500).

Pensions and benefits indexation – As required by the Act, pensions and benefits are indexed annually based on the Consumer Price Index for Canada. The rate of indexation for 2002 is 3.0% (2001 – 2.5%).

2. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of presentation

These financial statements present the net assets and the changes in net assets of the Canada Pension Plan. They do not provide information on the actuarial estimates required to meet future obligations of the CPP. The CPP Act does not require that the pensions and benefits be pre-funded.

The financial statements are prepared in accordance with the *Canada Pension Plan* (the CPP Act). They have been prepared on the accrual basis of accounting and they include amounts which must, of necessity, be based on management's best estimates and judgements.

The CPP, which is under joint control of the Government of Canada and participating provinces, is not considered to be part of the reporting entity of the Government of Canada. Accordingly, its financial activities are not consolidated with those of the Government.

b) Valuation of investments

Bonds are shown at cost, which is equal to the face value of the bonds at the time of purchase. This accounting policy has been selected based on the non-marketable, non-transferable nature of the bonds and on consideration of the likelihood of redemption of the provincial and territorial bonds in the foreseeable future. The bonds issued by the provincial and territorial governments are redeemable prior to maturity at market value equivalent at the option of these governments. In the event that the federal Minister of Finance considers the redemption necessary to pay pensions, benefits and administration costs, the bonds would then be redeemed at face value.

CPP Investment Board's investments are stated at fair value. Fair value is the amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. Market prices for securities and unit values for pooled and mutual funds are used to represent fair value for the investments. Unit values reflect the quoted market prices of the underlying securities.

c) Contributions to the Plan include CPP contributions collected by the Canada Customs and Revenue Agency (CCRA) for the year, including receivables at year-end. Funds transferred by the CCRA are estimated and are subject to review and adjustments. Adjustments, if any, are recorded as contribution revenue in the year they are known.

d) Investment income recognition

Interest income is recorded in the year in which it is earned.

CPP Investment Board's net income from operations represents the Investment Board's investment income, less investment and administrative expenses. Investment income is recorded on the accrual basis and represents realized gains and losses on disposal or transfer of investments, unrealized gains and losses on investments held at the end of the year, dividend income, interest income, and distributions from mutual and pooled funds. Realized gains and losses on investments sold during the year represent the difference between sale proceeds and cost, less related costs of disposition. Unrealized gains and losses represent the change in the difference between fair value and cost of investments at the beginning and end of each year.



- e) Pensions and benefits are recorded when payable.
- f) Net overpayments are composed of overpayments of pensions and benefits that were established during the year less remissions of debts granted.
- g) Administration costs are recorded in the year to which they relate.

3. INVESTMENTS HELD BY THE CPP INVESTMENT FUND

The Canada Pension Plan Investment Fund was established in the accounts of Canada by the CPP Act to record the Plan's investments in bonds of the provinces, territories and Canada. The CPP Investment Fund's bond portfolio is administered by the federal Department of Finance.

Until the end of 1997, the investments in provincial, territorial and federal government bonds were made with the cash on hand in excess of the Plan's forecast three-month operating requirement. These bonds were not marketable and had a 20-year term (or less) as fixed by the Minister of Finance on the recommendation of the Chief Actuary of the Office of the Superintendent of Financial Institutions. The interest rate on the bonds was determined by the Minister of Finance based on the average yield to maturity of all outstanding Government of Canada obligations with terms of 20 years or more. When these bonds matured, funds not required for payment of pensions and benefits were re-invested in new bonds.

Beginning in 1998, a maturing provincial or territorial bond may be re-invested in a new bond only once for a term of 20 years, if both the issuer asks to do so and the operating balance is sufficient to pay current pensions and benefits. Excess funds not re-invested are transferred to the CPP Investment Board.

The re-invested bonds remain not marketable and bear interest at a rate fixed by the Minister of Finance. The interest rate is substantially the same rate that the province would pay if it were to borrow the same amount for the same term through the issuance of a bond on the public capital markets.

During the year, all redemptions of bonds were made, at maturity date, at face value. Interest earned on the investments is paid semi-annually to the CPP Account. The bonds are redeemable in whole or in part before maturity. Since January 31, 2001, the provinces and territories are permitted to redeem their bonds held by the CPP Investment Fund prior to their maturity at a value equivalent to market value. The bonds can also be redeemed at the option of the federal Minister of Finance where he considers the redemption necessary to pay pensions, benefits and administration costs. The bonds are then redeemed at face value. No bonds were redeemed by the provinces and the territories prior to maturity during the year ended March 31, 2002.

At March 31, 2002, the balance in the Investment Fund was \$28.3 billion at cost (2001 – \$29.6 billion). The estimated fair value of the balance in the Investment Fund, including accrued interest, is \$34.3 billion (2001 – \$37.6 billion). This estimate is calculated by discounting the bonds' contractual cash flows at rates currently available at year-end for similar investments.



The following schedule provides information on the redemptions, re-investments and balance of the Investment Fund.

Bonds, at cost (in thousands of dollars)

	March 31, 2001	Redemptions	Re-Investments	March 31, 2002
Newfoundland	633.656	52,973	52,376	633,059
Prince Edward Island	140,469	11,504	11,374	140,339
Nova Scotia	1,173,077	96,251	96.251	1.173.07
New Brunswick	835,171	75,637	74,784	834,31
Quebec	95,813	6,316	6,250	95,74
Ontario	12,708,448	1,268,736	503,955	11,943,66
Manitoba	1,394,972	135,001	_	1,259,97
Saskatchewan	1,329,256	109,647	_	1,219,60
Alberta	3,776,251	216,739	_	3,559,51
British Columbia	4,096,848	378,223	308,580	4,027,20
Yukon Territory	3,726	_	-	3,72
	26,187,687	2,351,027	1,053,570	24,890,23
Canada	3,403,537	17,622		3,385,91
	29,591,224	2,368,649	1,053,570	28,276,14

The following schedule presents the classification of bonds by maturity dates and the weighted-average annual rate of return on bonds currently held.

(in millions of dollars)

	2002		2001	
	Investment at cost	Average yield	Investment at cost	Average yield
Investments maturing		•		
Within 1 year	2,383	14.80%	2,369	15.31%
1 – 5 years	10,020	11.46%	9,529	12.84%
Over 5 years	15,873	9.13%	17,693	9.38%
Total – Investments	28,276		29,591	· · · · · · · · · · · · · · · · · · ·
Weighted-average yield on investments		10.43%		10.97%



4. INVESTMENTS HELD BY THE CPP INVESTMENT BOARD

The Canada Pension Plan Investment Board was established by an Act of Parliament in 1997. The Canada Pension Plan Investment Board Act came into force on April 1, 1998. The purpose of the Board is to invest the funds transferred by the CPP in a diversified portfolio of securities. The Board is designed to operate at arm's length from the government. It is required to be accountable to the public, Parliament, through the federal Minister of Finance, and his provincial counterparts through regular reports.

The following schedule provides information on the Board's investments as at March 31.

(in millions of dollars)

	2002	2001
Canadian equities, at fair value		2001
Public Markets	9,970	5,024
Private Markets	144	5,024
1 Tivato Iviaritoto	10,114	5,024
	10,114	5,024
United States		
Public Markets	1,861	1,070
Private Markets	304	
	2,165	1,070
Non-North America		
Public Markets	1,971	1,061
Private Markets	12	1,001
1 Hvate Walkets	1,983	1,061
Total Equities		
	44.000	7.155
(Cost 2002 – \$14,690; 2001 – \$8,042)	14,262	7,155
Other Investments		
Money Market Securities (Cost 2002 – \$27; 2001 – Nil)	27	_
Total Investments	14,289	7,155

In accordance with its Investment Policy, 100% of the CPP Investment Board's investments are allocated to equities, with at least 70% of the book value allocated to Canadian equities and the remainder to non-Canadian equities.

The regulations governing the CPP Investment Board allow the active management of up to 50% of Canadian equities, on a book value basis. The regulations restrict the remaining investments in Canadian equities to substantially replicate the composition of one or more broad market indices.

As at March 31, 2002, 96,6% (2001 – 100%) of investments are held in public market equities. Approximately 99% (2001 – 61%) of investments in Canadian public market equities are held in funds that substantially replicate the composition of the Toronto Stock Exchange 300 Composite Index.



All United States and Non-North America (collectively "Non-Canadian") public market equities are held in funds that substantially replicate the Standard & Poor's ("S&P") 500 Index and the Morgan Stanley Capital International ("MSCI") EAFE Index, respectively.

As at March 31, 2002, 3.2% (2001 – nil) of investments are held in private market equities. These investments, currently in Canada, the United States, and Western Europe, are generally made by taking an interest in funds managed by third parties. The underlying investments represent equity ownership or investments with the risk and return characteristics of equity.

The CPP Investment Board's audited financial statements for the year ended March 31, 2002 are publicly available and provide details concerning the Board's investment policy, its investments and portfolio return.

5. RECEIVABLES FROM BENEFICIARIES

(in millions of dollars)

	2002	2001
Balance of pensions and benefits overpayments	73	76
Less: allowance for doubtful accounts	30	30
	43	46

Human Resources Development Canada has procedures to detect overpayments. During the year, overpayments totalling \$38 million (2001 – \$33 million) were established and remissions of debts totalling \$10 million (2001 – \$8 million) were granted. A further \$32 million was recovered (2001 – \$24 million).

6. CANADA PENSION PLAN ACCOUNT

The CPP Account was established in the accounts of Canada by the CPP Act, to record the contributions, interest, pensions, benefits and administration costs of the Plan. It also records the amounts transferred to or received from the CPP Investment Fund and the CPP Investment Board.

The balance of the CPP Account includes the Deposit with the Receiver General for Canada and short-term investments, if any. As at March 31, the Deposit with Receiver General for Canada amounts to \$6,770 million (2001 – \$6,420 million).

7. CONTRIBUTIONS

The Department of Finance estimates annual contributions based on a forecast of pensionable earnings. That forecast of pensionable earnings is based on a formula using many factors such as the growth in the number of contributors and in the average pensionable earnings. Although the Department of Finance uses recent data and statistics in the calculation, a variation may occur in the factors used to estimate those earnings. For example, a variation of one percentage point in the number of contributors or in the average pensionable earnings for 2001, would result, in each case, in a change of \$ 227 million (2000 – \$201 million) in estimated contributions.



The Canada Customs and Revenue Agency (CCRA) transfers contributions to the CPP based on the Department of Finance's estimate of contributions to be collected for a calendar year and on its own contribution collection schedule for the year. Actual pensionable earning and contribution amounts for 2001 and 2002 will only be known once the CCRA has processed all employers' and self-employed workers' declarations of contributions for 2001 and 2002.

Adjustments, if any, are recorded in the year in which they are known. The CPP reimbursed \$396 million to CCRA in 2001-2002 as an adjustment for 2000 and preceding years (2000-2001 – CPP received \$357 million for 1999 and preceding years).

8. INVESTMENT INCOME

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(ın	mil	lons	ot o		lare)

	2002	2001
Interest on bonds held by the CPP Investment Fund	3,071	3,326
Interest on deposit with the Receiver General for Canada at a weighted-average rate of 3.09% (2001 – 5.27%)	189	362
Interest on short term investments with Canada (2001 – weighted-average rate of 5.63%)	-	12
Investment Board net income / (loss) from operations:		
Net unrealized gains / (losses)	459	(1,247)
Fund distributions of capital gains and dividends	213	213
Net realized gains / (losses)	(378)	180
Dividend Income	12	3
Other investment income	10	6
Less: Investment and administrative expenses	11	6
	305	(851)
	3,565	2,849

9. PENSIONS AND BENEFITS MISPAYMENTS

Given the nature of the Plan and the number of applicants and beneficiaries, from time to time overpayments and underpayments of pension and benefit payouts may be made. Periodically, Human Resources Development Canada undertakes studies of the extent and nature of pension and benefit mispayments. The most recent review was completed for the 1999 benefit year. The most likely value of undetected mispayments for that year was \$32.4 million (under-payments – \$11.1 million).

In July 2002, a new approach in the management of risk for the CPP program was initiated. As HRDC moves towards Modernizing Service for Canadians, corrective and preventative initiatives to mitigate pension and benefit payment risks will be identified, prioritised and managed through the recently introduced Integrated Risk Management approach. This new practice replaces studies on the extent and nature of pension and benefits mispayments which were reported in the previous years.



10. ADMINISTRATION COSTS

(in millions of dollars)	2002	2001
Pension and benefit delivery, accommodation and corporate services (Human Resources Development Canada)	279	243
Collection of contributions (Canada Customs and Revenue Agency)	78	78
Cheque issue and computer services (Public Works and Government Services Canada)	13	13
Actuarial services (Office of the Superintendent of Financial Institutions)	1	1
	371	335

Administration costs of the CPP represent the cost of services received from a number of federal government departments and an agency. Those costs are charged to the CPP in accordance with memoranda of understanding.

11. CONTINGENCIES

At March 31, 2002, there were 8,185 (8,224 in 2001) appeals relating to the payment of CPP pensions and benefits. Claims for these appeals could reach a maximum of \$35 million (\$21 million in 2001). Any claims resulting from the resolution of these appeals will be accounted for as an expenditure of the period in which the claim will be paid.

12. SUBSEQUENT EVENT

In June 2002, a Bill was tabled in the House of Commons to amend the Canada Pension Plan and the Canada Pension Plan Investment Board Act in order to implement a federal-provincial agreement to transfer CPP assets (the Deposit with the Receiver General and the Canada Pension Plan Investment Fund) that are managed by the federal government to the CPP Investment Board. The adoption of the new law would make it possible for the transfers to begin in 2003 and to continue over a three-year period.

As a result of the tabling of the Bill in the House of Commons, the Chief Actuary of the Office of the Superintendent of Financial Institutions has submitted a Nineteenth Actuarial Report on the Canada Pension Plan. This report, tabled in the House of Commons in June 2002, reflects the changes in the assets of the Plan following the transfer of funds to the Board.

13. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year's presentation.



FEEDBACK FORM

THE ANNUAL REPORT OF THE CANADA PENSION PLAN — IS IT GIVING YOU WHAT YOU NEED?

The CPP Annual Report is designed to help Canadians understand the role of the Canada Pension Plan and how it is managed. It describes developments during the past fiscal year that affect the Plan and provides the Plan's audited financial statements for the fiscal year ending March 31, 2002. The Report also gives a glimpse of where the Plan is headed and what steps are being taken to make sure it will continue to be there for future generations.

We are interested in hearing what you have to say about our report and how we can make it more useful to readers. Please take the time to fill in the brief questionnaire below, circling your responses. Then fax this sheet back to us at (613) 957-1602.

1. What is your purpose in reading the CPP Annual Report?

- To obtain general information about the CPP
- To do research for studies or private business
- To assist in counselling Canadians on their retirement finances
- To assist clients in a medical context
- To find out about the recent changes to the CPP
- Other (please specify)

2. What sort of CPP information interests you?

- · General information about the CPP, such as benefits and services
- Disability benefits information
- CPP financial information, such as investments and expenditures
- Other (please specify)

3

. Was the i	nformation you needed easy to find in the Report?
☐ YES	□ NO
(If no, pleas	se specify why not)



4. Which would you prefer to receive?

• A full report

5.

- A short report, with information on where to find detailed information on specific areas
- Notification of the Report's availability and the Web site location







Annual Report

of the Canada Pension Plan
2001-2002





